Ardent Partners

# ePayables 2013:

# AP's New Dawn

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## REPORT OVERVIEW

This independent research report seeks to present a comprehensive, industry-wide view into what is happening in the world of accounts payable ("AP") today by drawing on the experience, performance, and perspective of more than 245 AP and finance professionals. The report is organized into the following chapters:

**Chapter One – The State of the AP:** This chapter looks at the continuing evolution of the role of AP and its level of engagement and alignment within the enterprise today, as well as the motivations and internal and external drivers that shape AP leaders' priorities and plans this year and beyond.

**Chapter Two – The State of ePayables:** This chapter offers an assessment of the extent to which the AP function is leveraging technology to improve its performance while also detailing the different areas within the enterprise that see and feel AP's impact.

**Chapter Three – AP Performance:** This chapter provides AP performance and operational benchmark statistics and a profile of Best-in-Class performers and their distinguishing characteristics.

**Chapter Four – Strategies for Success:** This chapter presents a series of recommended strategies and approaches for finance and AP leaders and their departments who are seeking to improve their operations and their results.

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*The sun is setting on manual processes and, for AP it has been a long day. With process automation now the rule and not the exception within the enterprise, the question for AP leaders in 2013 is not if technology should be deployed, but rather, when can it be deployed and how quickly can it be mastered. Welcome to the dawn—AP's new dawn. This report focuses on how the use of ePayables solutions drive value for the modern enterprise while also capturing the strategies, performance, and intentions of more than 245 organizations, and highlighting the Best-in-Class AP strategies that drive superior performance.*

# CHAPTER ONE – THE STATE OF ACCOUNTS PAYABLE

*"It's a new dawn, it's a new day, it's a new life for me, and I'm feeling good."*
**~ Nina Simone**[1]

## AP Rising

Welcome to the new dawn of AP. More than thirteen years into the new millennium and a majority of AP leaders appear poised, finally, to rise and take control of their department's destiny. Driven by a need to eliminate inefficiency (and paper), and backed by a desire for holistic processes, these leaders are ready to seize the new day in which AP plays a more strategic role within the financial operations of an enterprise. Those that fail to do so risk being left behind due to the paper invoices and manual checks that still linger in the dark corners of many AP departments.

The convergence of more usable, accessible, and affordable solutions to automate all or part of the AP process, and the increasing intolerance of inefficiency, is driving AP, finance, and procurement leaders to invest in AP transformation initiatives. The added value that results from improved AP performance has become too significant to ignore, especially considering the impact on operational costs, working capital management and visibility around financial liabilities. It is only after AP is armed with the right tools, that the function can support, enhance, and enrich broader procure-to-pay (P2P) and working capital optimization strategies. And, with cloud-based ePayables solutions that are increasingly usable and accessible, and business/payment network capabilities that continue to expand, AP leaders have more powerful and proven tools at their disposal than at any other time.

It is fair to say that departments within enterprises today are utilizing technology to a greater degree than they were just five years ago. What discerns the Best-in-Class organizations from the mediocre ones, however, are their levels of end-user technology adoption, the sophistication with which they use technology, and the benefits they ultimately achieve from automation. The disparity between AP departments remains stark. "Enlightened" or Best-in-Class AP organizations

[1] "Feeling Good" music and lyrics by Anthony Newley and Leslie Bricusse

use advanced technologies, such as data capture, eInvoicing, electronic payment, P2P, and network solutions to process invoices and payments while other AP groups literally work in the dark using Excel spreadsheets to manage invoices and payments, entering data manually into back-end systems, and mailing paper checks to make their payments.

AP, finance and procurement leaders must ask themselves what type of AP operation they want to run: one that is on the forefront, performing at a high level and leveraging technology to continuously improve efficiency and increase value for the enterprise, or, one that continues to operate in the dark as a tactical, administrative function that is more costly than need be, adding limited value to its counterparts in procurement and treasury.

As this research report will show, leading AP departments are prepared to deliver. In point of fact, the top performing AP departments are already rising to support executive goals, they are rising to meet the cash management needs of the treasurer, and they are rising to new levels of performance. Ardent Partners believes that AP will continue its rise in 2013.

## *Priorities for the New Day*

For AP groups to enter into the next stage of their evolution, it is important for them to understand the key drivers and barriers they face. As shown in Figure 1, migrating off of paper-based processes is the top priority for the majority (52%) of respondents, as it has been for the past few years. Moving from paper to more automated processes not only reduces operating costs, but also streamlines the AP process and introduces a higher level of control and visibility into payables. The second priority, improving processing efficiency (44%), is something that can only be done effectively once a significant amount of paper has been removed from the invoicing and payment processes.

**Figure 1: Top Priorities for AP**


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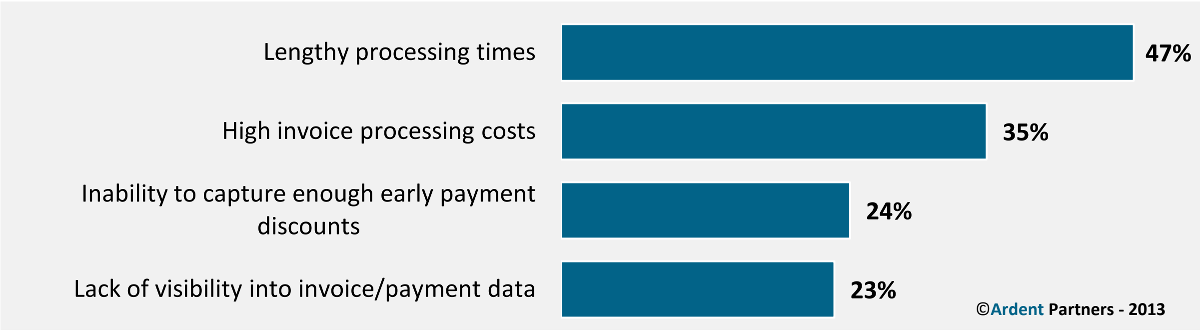
Also worth noting is the desire of a quarter of the respondents to improve AP's internal and external collaboration. AP is in a unique position, operating at a key convergence point for procurement, finance and suppliers. Internally, AP leaders want to be viewed as a strategic partner that collaborates with and adds value to other groups such as treasury and procurement.

Externally, AP wants to collaborate with suppliers to ensure correct pricing, terms, delivery, payment, vendor information, etc. With all groups, AP's ability to provide easy access to accurate and up-to-date invoice and payment data is a key part of improving collaboration.

Even with the reduced cost and shorter deployments of cloud-based solutions, and the improved capabilities around business/payment networks being offered by AP solutions, many AP groups remain stuck at the lower end of the technology spectrum; the time has come to change this. Enterprises at the lower end of the technology spectrum deal with lengthy invoice-processing times, errors and discrepancies, missed early payment discounts, late payments and, of course, high processing costs. The fact that they are operating an enterprise-wide business function with manual, paper-based processes prohibits access to accurate and up-to-date data on AP (i.e., financial liabilities), which is unacceptable in this information-centric age. Information is everything and having visibility and direct access to it can be a competitive differentiator, which can mean the difference between a financially-nimble organization and a financially-rigid one.

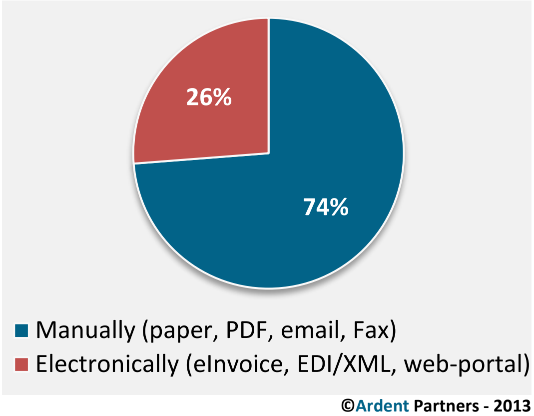
The typical AP group is well aware of the fact that their invoice and payment processing takes too long and costs too much. As noted in Figure 2, many AP organizations today face challenges with long processing times (47%). A lengthy invoice processing time has adverse consequences, such as missed early payment discounts, late payments, supplier inquiries (in which associated inbound phone calls can be unnecessarily time consuming), and outdated accruals resulting in inaccurate financial information. High processing costs remain a significant (35%) challenge for many departments and not much will change unless the manner in which both invoices and payments are processed improves.

**Figure 2: Top Challenges Facing AP**



### *Paper Vs. Electronic*

**Figure 3: Manual Vs Electronic Invoices**




Why do so many AP departments continue to face time, cost, and effectiveness challenges? The answer is clear: too much paper. Ardent Partners' research shows (see Figure 3) that the average enterprise receives 74% of its invoices in a manual format including paper, PDF, email or fax. Receiving invoices via PDF or email is no better than receiving paper unless a data capture solution is in place to automatically identify, extract, and convert data into a digital format. Otherwise the information has to be manually-entered. The remainder (26%) is received in electronic format, which includes eInvoice, PO-flip, EDI/XML or web-portal.

If AP's top priority is to migrate off paper-based processes, why are 74% of all invoices received in a manual format? According to Ardent's research (Figure 4), the biggest challenge is getting suppliers to participate in an initiative (53%). For an eInvoicing initiative to be successful, it is critical to get as many suppliers onboard as quickly as possible. However, in most cases, Ardent believes that AP organizations should utilize a "portfolio approach" in their initial efforts to connect with their suppliers electronically since a complete migration will not happen overnight and some one-off suppliers will only ever submit paper invoices. For this reason, AP departments are wise to put in place mechanisms that can convert these manual invoices into an electronic format, so that the data can be captured and processed in a more efficient manner.

**Figure 4: Challenges to Migrating off Paper to Electronic Invoices**


Another challenge noted by 45% of AP groups is the integration that is often required by both the AP organization and the supplier to internal systems. This can become an encumbrance due to the time and resources that a supplier may need to invest in a new system, especially if dealing with an EDI or XML integration. AP groups should realize that many of their suppliers have already integrated (or enrolled) into other customers' systems, in addition to having their own accounts receivable system, which manages the order-to-cash process (the process for receiving and processing customer sales). In order to overcome this challenge, AP departments must make it as easy as possible for their suppliers to connect to them.

While paper rules the day in invoicing, electronic payments (ePayments) are slowly but surely winning the battle against paper checks. The market penetration of ePayments is growing, as shown in Figure 5 where 53% of payments are being made electronically. Additional analysis shows that while almost all companies still use paper checks, only 8% increased their usage of paper checks over the past two years. This is not a surprise since **the average "fully-loaded" cost to process one check payment is approximately $12**. These figures paint a clear picture of migration away from paper checks to ePayments. Further evidence of this is that the vast majority of respondents (81%) report that ACH payments have increased over the past two years, and 50% also reported an increase in commercial card payments over the same timeframe (Figure 6).

**Figure 5: Manual Vs. Electronic Payment**

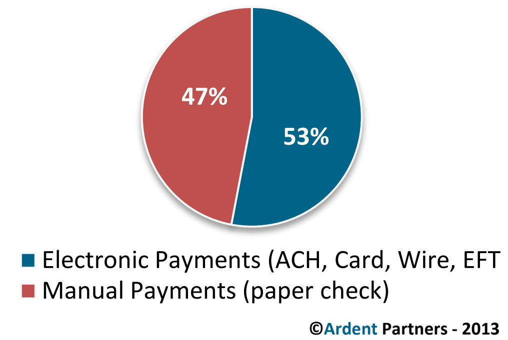
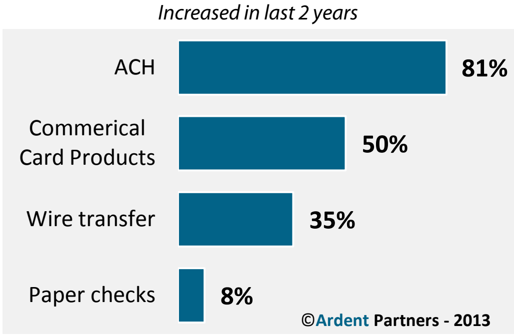



**Figure 6: Electronic Payment Usage**

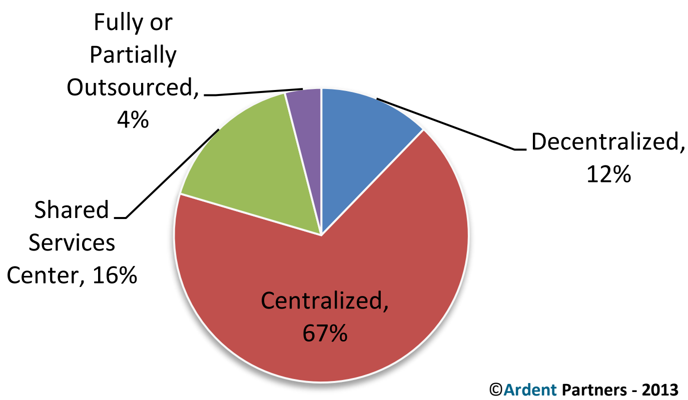



The increased usage of the various forms of ePayments versus paper is a trend that Ardent has tracked for years and it is one that should continue in 2013. According to one **Global AP Director** at a multinational manufacturer who participated in this study, *"We moved off checks a long time ago and it was the best decision we made. Internationally, especially in Europe, nobody uses checks. It's hard to believe that paper checks are still so prominent in the U.S."* Commenting on the payment strategy adopted by her company, a **Senior AP Manager** at a global apparel retailer said, *"We've been pushing electronic payments recently and have seen an 18% decrease every month in terms of the number of checks we're cutting."*

## AP Organizational Structure

Several years ago, the structure of AP groups began to shift to more centralized models. In 2013 (similar to Ardent's **ePayables 2012: Not Broken, Needs Fixing** report), centralization remains the preferred operating model with more than 80% of all AP departments (Figure 7) operating in a centralized or shared services environment. A centralized approach has a variety of benefits, such as the elimination of redundant roles and processes, fewer fragmented systems, and the ability to have a more holistic view of the AP process. The adoption of shared services centers has been an increasing trend and while they offer tremendous opportunities for centralization of functions and reduction of costs, they are not without their challenges. According to one **AP Manager**, *"We have shared services centers and decentralized systems so consolidation of data is obviously a challenge."*

**Figure 7: AP Organizational Structure**




Centralization is one of many steps towards transforming an AP organization and improving its performance. A centralized AP group that receives a majority of invoices in paper format and processes them in a manual fashion can drive improvements through standardization, but its efficiency potential is capped since it is standardizing a manual process that cannot be scaled. A centralized structure with standardized and automated processes is the foundation upon which the next level of efficiency and visibility within AP is realized. Providing timely and accurate visibility into payables data is a capability that adds tremendous value to the enterprise and should be a goal for every AP department. For example, the ability to know, at any point in time, the total value of all invoices that are coming due over the next 30 days is invaluable. A treasury department would certainly benefit from having access to this level of AP information sooner rather than later. Similarly, knowing the number of invoices that have potential discounts at any given time can help to prioritize processing activities.

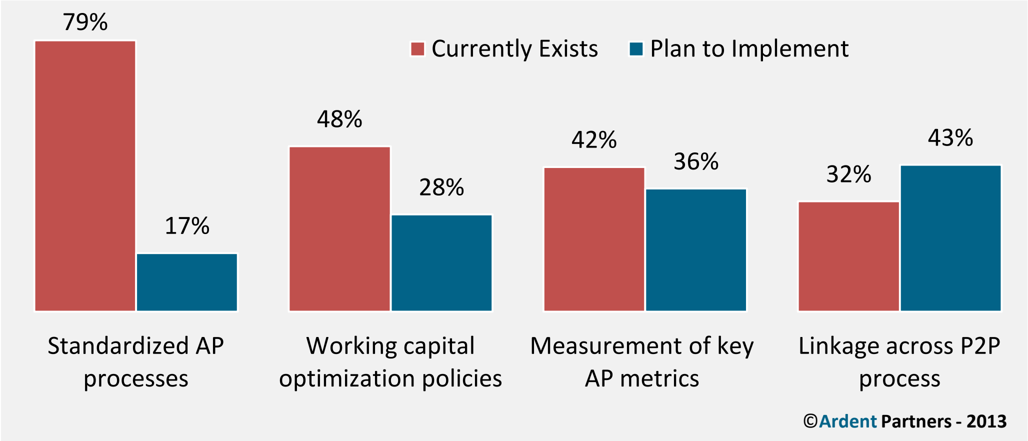
Overall, AP's role is evolving to meet the priorities of the new day. CFOs expect more than operational excellence from their AP function, which has long been considered a back-office cost center. AP is transforming into a strategic business enabler charged with the task to continuously improve efficiency and reduce costs, while strengthening compliance and controls, and ensuring that payments are accurately and quickly reported. However, a question remains: Are enterprises keeping up with this evolution and supporting it adequately through the use of technology? For those on the lower end of the technology spectrum, the challenge is making the case for an investment in more sophisticated technology to begin moving up the spectrum. This will allow for a more strategic focus that can add value as opposed to remaining tactical. For those that are further along the technology spectrum, the challenge is to drive end-user and supplier adoption, improve productivity, reduce exceptions, and strive to continuously improve key performance indicators (e.g., invoice cycle time, invoice backlog, etc.).

## *Capabilities to Face the Day*

The most common characteristic currently present in most AP groups (79%) is standardized processes (Figure 8). While a standardized approach to processing invoices and payments is an initial step towards an efficient AP operation, leveraging technology in addition to this has the potential to drastically improve efficiency. Other capabilities that are becoming more and more commonplace today within AP groups include the implementation of policies around working capital optimization, and the ability to measure key AP metrics. With payables being one of the key components of working capital, AP is a vital function within the enterprise that can have an impact in this area.

As AP leaders look ahead and prioritize the capabilities that they plan to implement, chief among those is improving the linkage across the P2P process (according to 43% of enterprises). A P2P process that is well-aligned from an organizational standpoint, and tightly-linked and automated from a process standpoint, presents a host of improvement opportunities, many of which are a by-product of having visibility into spend, invoices, and processes across the P2P spectrum.

**Figure 8: AP Operational Capabilities**



## Collaborative…not Administrative

As AP continues to move away from tactical duties to more strategic objectives, the value that it is able to create for the enterprise increases. Given the opportunity and the means, AP can add real value to procurement and the entire P2P process, as well as to treasury and its quest to optimize working capital. AP's new dawn has arrived.

From the procurement perspective, P2P has traditionally been about establishing and maintaining processes that reduce operational costs, deliver savings, and provide accurate data. Procurement (the first "P") is focused on driving more spend under management, negotiating and capturing the savings from the sourcing process, and managing supplier risk and performance. The second "P," or what happens after the goods and services have been delivered, has generally been an after-thought for the average procurement team – viewed as a different process that is managed by a completely different team. This is not the case anymore; in fact, according to 61% of AP professionals, AP and procurement are currently working towards certain shared goals. As an example, one **AP Director** shared, *"Procurement and AP reporting used to be separate, now it's been brought together in an integrated layer. Procurement doesn't have to call us and ask how much was spent with a specific supplier."*

**61% Agree**

**AP and procurement work towards certain shared goals**

From the treasury perspective, an efficient AP department that can provide much-needed visibility into payables, and access to accurate information on current financial liabilities or opportunities to capture early payment discounts, is tremendously valuable in executing working capital optimization strategies. According to Ardent's research, 45% of AP professionals agree that AP is instrumental in executing treasury's working capital optimization strategies. This is a perfect example of how AP can add significant value to treasury and to working capital management in general. Additionally, 51% agree that automating AP processes would significantly benefit the treasury group. An AP operation that constantly deals with high exception rates, numerous discrepancies and delays in invoice approval, erroneous payments, and a general lack of visibility does a disservice to the treasury function and the enterprise at large.

**45% Agree**

**AP is key to treasury's working capital optimization strategies**

**51% Agree**

**Automating AP processes would significantly benefit the Treasury group**

### *The Supplier's Role*

When enterprises launch transformation initiatives within the AP process or within the larger P2P process, one of the stakeholders that often gets left out is the supplier. More and more, however, the perception of the supplier is changing. Traditionally, they were considered external parties that offered little strategic value except to deliver better pricing. Today, more and more suppliers are considered an important component of the extended enterprise and are viewed as partners.

Ardent believes that when organizations travel down the path of automation, it is important to consider the suppliers' needs and capabilities. In fact, research found that buying organizations that transact with their suppliers via a network are increasingly concerned about the cost to the supplier (discussed further in Chapter 2). The bottom line is that for an AP transformation to really take hold, AP must also seek to improve the processes of its trading partners.

| Traditional View of Suppliers | "New" View of Partners |
| --- | --- |
| • Suppliers are companies that provide goods and services as needed<br>• Supplier interactions are essentially zero sum<br>• Leverage is the key to value<br>• Contracts and SLAs are the primary supplier management and communication tools | • Suppliers are a source of knowledge, expertise, and assets<br>• In a world of competing supply chains, our success is tied to that of our suppliers<br>• Supplier collaboration is the key to value<br>• Complex supplier relationships require formalized governance and relationship management |

One Fortune 500 company takes an innovative approach to its supplier relationships as its **Global AP Director** explains, *"As we move to digitize everything we do in AP, we are putting our suppliers first. However, if the supplier wishes to connect to us, we have to be open to it. If companies like ours want suppliers to adopt technology, we have to be willing to pay the network fee on their behalf. If the supplier is already connected to a network, we're going to connect to them [network-to-network interoperability], and if they're not connected to a network we're going to provide a menu of options that includes ERS, EDI/XML, eInvoicing, email a PDF, load PDF into a portal, or eFax a PDF of the invoice."*

# CHAPTER TWO – THE STATE OF EPAYABLES

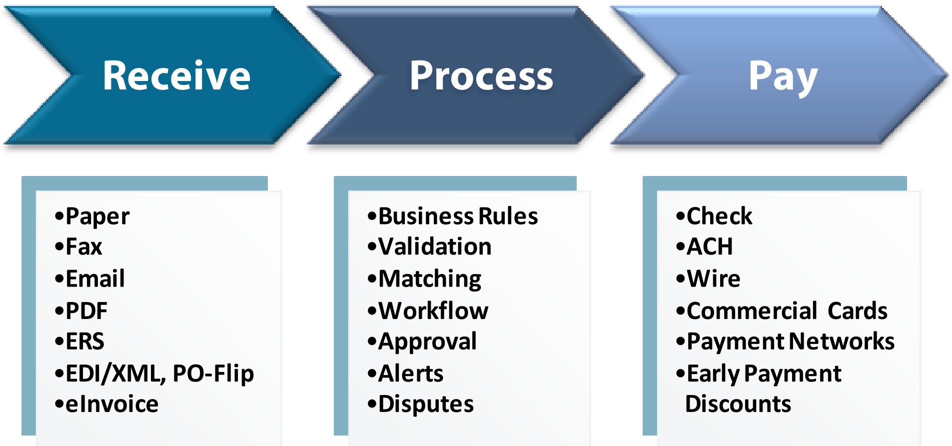
While AP departments have typically lagged other functional areas in their use of automation to streamline processes and enable more broad-based changes, leading AP groups have been able to make the case for an investment in ePayables solutions and establish a competitive advantage as a result.

## Ardent Partners' ePayables Framework

Ardent Partners defines ePayables as the solutions and services that automate all or part of the AP process. Ardent Partners developed the ePayables Framework (Figure 9) to help AP departments evaluate their various processes by dividing invoice processing into smaller, more manageable segments. AP departments can then establish a clear view into the current state of operations—"what is happening today"— and then take the opportunity to clearly define new AP processes—"what should happen tomorrow". By developing a clear view into the scope of activities that occur within each phase, what resources and systems are utilized, and what processes are followed, AP departments will be better able to set standard practices and work to develop best practices. The framework organizes the AP process into three major phases:

1. **Receive** – how the enterprise receives invoices
2. **Process** – how the enterprise validates and approves the invoices
3. **Pay** – how the enterprise schedules and makes payments

**Figure 9: Ardent Partners' ePayables Framework**

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The framework is also useful as a way to analyze the marketplace and understand what areas AP groups are managing well and where improvement is needed.

## Receive and Process Phases

The first phase of the ePayables Framework, "Receive," looks at the platforms used to submit and receive invoices, and evaluates the types of invoices received and their associated volumes. Getting this first step right is critical to the AP process because the manner in which an invoice comes into the organization determines how it will be processed, how it is entered into the system, and the time and cost needed to process it. For example, when paper, PDF, emailed and faxed invoices are concerned, invoice data has to be taken from the original document and entered into the system either manually or using an imaging or data capture solution to digitize and automate the entry. Conversely, if an eInvoice is received, the data is captured electronically by the system.

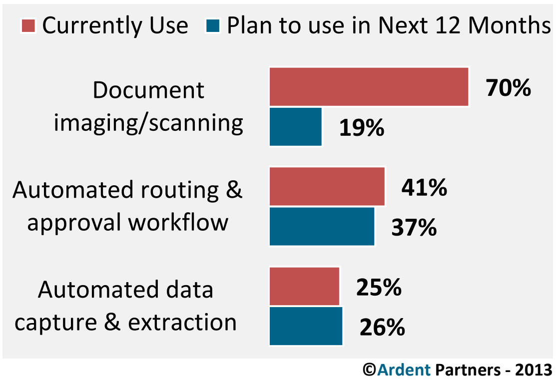
How the invoice (or data) is then processed will depend on the processes and systems used to manage the second phase of the AP process, "Process." Invoice matching, validation, and approval are the major activities in this phase. The speed and cost of this phase will depend on the accuracy of the invoice information and the level of process automation. For example, if this phase is largely manual, the invoice data must be validated, matched, and sent for approval by the AP staff. If this phase is fully automated, the system can use specific business rules to automatically validate and match the invoice against other back-end system data (e.g., against purchase orders, goods received notes and/or contracts), and process the invoice straight-through or submit it into an automated routing and approval workflow.

Three categories of ePayables solutions address the first two phases of the ePayables Framework: (1) Scan, capture and workflow solutions, (2) eInvoicing, and (3) Business networks.

### *Scan, Capture and Workflow Solutions*

The primary role of these solutions/services is to take paper-based documents and transform the data that lies within them into a usable electronic format which can then be processed in a more automated and efficient manner. The three solutions mentioned below are often used together as they are complementary to each other, and when used in concert, add greater value to the AP process.

**Figure 10: Scan, Capture & Workflow**




This category of AP technology includes:

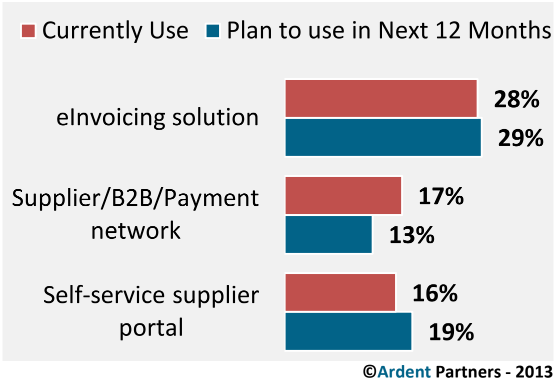
1. **Document Imaging** – In the context of AP, document imaging solutions are used to scan paper invoices and produce an image of the invoice. According to our research (Figure 10), these solutions are the most widely used type of ePayables solution today (70% of all

enterprises). Since document imaging solutions fail to address invoice processing, they are increasingly used in combination with one or both of the technologies that follow.

2. **Data Capture** – Using the scanned image of an invoice, a data capture solution uses OCR (optical character recognition) and self-learning algorithms to conduct document classification, separation, and data extraction. This process converts data into a digital format, which can then be processed more effectively and used to gain more intelligence around AP activities. Additionally, these solutions can perform validation and matching against ERP data and often include routing and approval workflow capabilities. As shown in Figure 10, one quarter of the market currently uses data capture solutions with just as many planning to invest in data capture solutions over the next year.
3. **Routing and Approval Workflow** – The ability to route invoices for approval is critical for improving efficiency within the AP process. Routing and approval workflow solutions allow organizations to establish business rules to manage the approval process for both PO and non PO-based invoices. PO-based invoices that match all of the pre-configured business rules can be processed "straight-through" without any human intervention and scheduled for payment. If there are exceptions that need to managed, they are routed to the appropriate users for resolution. As seen in Figure 10, 41% of AP departments use automated routing and approval workflow solutions today.

### *eInvoicing Solutions*

**Figure 11: eInvoicing/ Networks**

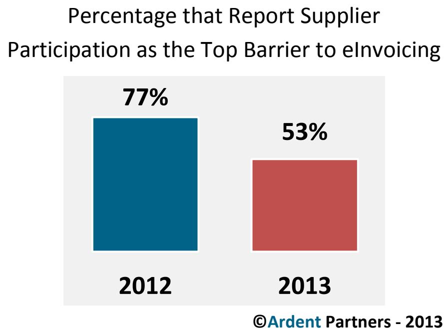



eInvoicing solutions remove paper from the AP process by creating invoices electronically and maintaining that format through the validation matching and approval processes. While an eInvoicing solution is deployed by the buying organization, it requires participation from the supplier base to become truly effective. Suppliers that choose to participate on an eInvoicing platform go through an enablement process that sets them up in the system and allows them to create and submit eInvoices directly to their customers. These systems can also enable suppliers to review invoice and payment statuses, send communications and updates, and work collaboratively to resolve exceptions. Figure 11 shows the current and planned usage of three types of solutions which enable and support eInvoicing. A network (discussed in more detail below) provides the backbone or infrastructure to the process and connects many-to-many while a supplier portal is the web-based solution that allows suppliers to link to their partners (directly or by network). These solutions are effective in connecting trading partners electronically and allowing them to share information and collaborate. According to a **Global Payment Director** of a Fortune 500 consumer products company, *"We are overwhelmed by the approximately 350,000 calls we receive each year….*

*50% of them are to check if we received an invoice and when it will be paid. This will be easily solved with our new vendor portal."*

The demand for eInvoicing solutions is steadily growing; Ardent Partners' research shows that 29% of enterprises are looking to use an eInvoicing solution in the next year. Over the last few years significant progress has been made in developing eInvoicing standards and regulations in different regions around the world and particularly in Europe and South America. Many governments, including the U.S., have recognized the benefits and cost effectiveness of eInvoicing and have begun to aggressively push the use of eInvoicing and ePayments with their suppliers.

**Figure 12: Improvement in Supplier Participation**




While the biggest roadblock for most eInvoicing initiatives remains getting suppliers to participate in the initiative, Ardent Partners' research shows that there has been a breakthrough and that many businesses are now overcoming this barrier. In Ardent's 2012 ePayables study, 77% of all AP departments reported supplier participation as the main challenge (Figure 12); today, that percentage has dropped to 53%, representing a 30% reduction. A large part of this drop can be attributed to the growing use of supplier networks and interoperability agreements between networks, as well as the benefit to suppliers of being electronically connected to their customers. This is why 76% of AP organizations agree that **suppliers are more favorable to submitting eInvoices today than three years ago** and 67% agree that **networks help accelerate the supplier enablement process.**

## *Business Networks*

Ardent Partners defines a business network (including a supplier, B2B, eInvoicing or payment network) as a web-based platform that enables interconnected buyers and sellers to trade, communicate, and/or collaborate with each other. With the drive to remove paper from the AP process, many businesses are looking to business networks as a mechanism to trade electronically and better connect entire supply chains. Although business networks started off being more buyer-centric, today, networks offer a variety of capabilities to both buyers and suppliers.

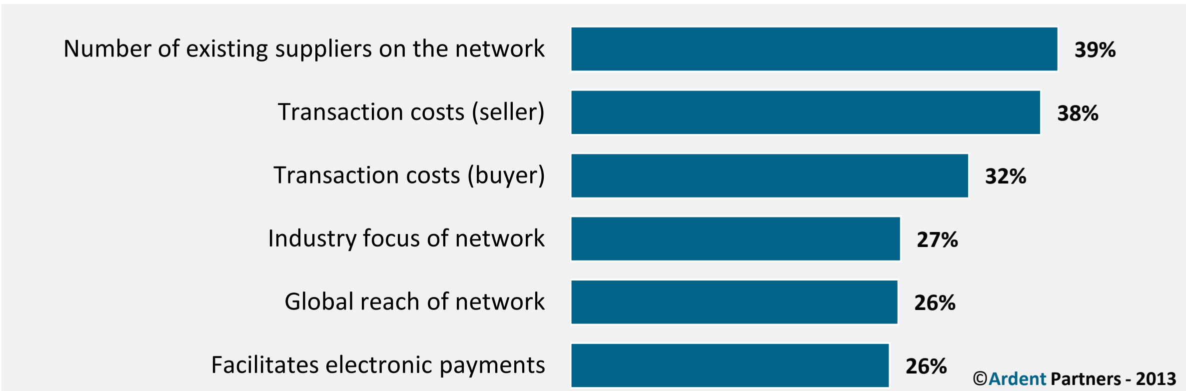
eInvoicing solutions, networks and supplier portals offer greater value when combined to function as a single solution. For example, an eInvoicing solution without the linkage to a network makes the process of enabling suppliers slower and more difficult. Similarly, a network without a supplier portal fails to add value to what is perhaps the most important component of a business network—the supplier itself. That said, each business network does have differentiating factors:

1. **Number of existing and active suppliers in the network** – The success of business networks today is still focused on the ability to attract buying organizations as customers. Therefore, the size of the network is critical, as the bigger the network, the higher the “match rate” (the percentage of an enterprise’s suppliers that are currently active on a given supplier network), and the easier the enablement process is likely to be.
2. **Cost** – There is a cost to use all networks, including a monetary cost for most and an opportunity cost for all. The cost may be seen as a subscription or license fee to a solution or solution suite that enables network access, or it may be direct transaction fees paid buyers and/or sellers.
3. **Geographic reach of the network** – For businesses that only trade within a certain country or region, a business network that takes a geographic approach may be more suitable than a global network. Regional networks often specialize in ensuring compliance to the unique trade policies and regulations of a specific country or region and they are also able to provide specific language support. This can be an important differentiator considering the quickly developing eInvoicing standards across the world.
4. **Vertical focus of the network** – Vertical focus is particularly useful in driving high supplier match rates, but networks can also be highly valuable when they are able to aggregate supply markets, identify excess capacity, set industry standards, and/or promote best practices.
5. **Additional capabilities made available to buyers and sellers** – On the buyer side, additional capabilities could include various P2P features including sourcing, eProcurement, contract management, AP automation and electronic payments (e.g., network provider acquires and maintains bank account information and enables settlement). On the supplier side, this may include order-to-cash capabilities, customer relationship management, accounts receivable features, and even marketing and sales functionality as it pertains to the network.

Over time, we expect to see a sixth consideration rise in importance: value-added services from third parties. As business networks mature, we expect that many companies will see opportunities to develop and deliver services that add value to business networks. An example that already exists within the network infrastructure is when a third-party bank provides supply chain financing (SCF) to network members. With SCF, buyers can benefit from early payment discounts while keeping (or extending) standard payment terms. In this scenario, the supplier is paid early by the third-party bank.

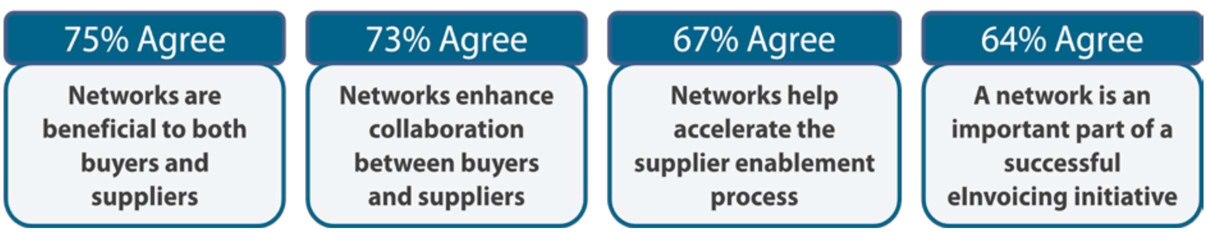
Not surprisingly, the factors that differentiate business networks are many of the same factors that are important to a buying organization when selecting a network. When compared to last year’s research, the most important aspect is still the number of existing suppliers, according to approximately 40% (Figure 13); however, the second most important factor—transaction costs for sellers—increased in importance drastically. In the 2012 report, transaction costs for sellers was noted as an important consideration by only 14%, as compared to 38% this year. This tells us that more organizations are weary of the fees that their suppliers are charged. Interestingly, this is the most important factor for Best-in-Class AP groups as many of them already use a network, and lowering the costs for their suppliers is a priority.

**Figure 13: Most Important Aspects of Selecting a Network**




While the percentage of businesses using networks in our research is low, the market view on business networks and their value suggests that network adoption will accelerate. Figure 14 below shows the percentage of survey respondents that agree with a series of statements around networks.

**Figure 14: Perspective on Business-Focused Networks**




## Pay Phase

The last phase of the AP process is the scheduling, processing and executing payment of an invoice. In the U.S., paper checks are still dominant as a payment format; however, this is shifting rapidly. The migration from paper checks to electronic payments such as ACH, commercial card products like cardless payment accounts, and wire transfers is a trend that is only going to accelerate over the next few years. Checks are costly, inefficient, prone to fraud, and offer very limited visibility into payment data, and companies of all sizes are realizing this. As one **Global Payments Director** interviewed for this report said, *"90% of our payments globally [to suppliers in over 150 countries] are made using ACH, EFT and wire transfers, but the biggest opportunity exists in the U.S."*

Ardent Partners believes that the tipping-point for electronic payments is at hand with most large enterprises already making a (growing) percentage of their payments electronically. Additionally, small and mid-sized businesses are increasingly leveraging various cloud-based services to send invoices and make payments. In many cases, it is easier for small businesses to start their AP transformation by introducing ePayments due to their quick implementation and the lack of heavy IT infrastructure. According to one mid-market **Financial Controller**, *"Our AP system can handle ACH payments and we have had little resistance from vendors,"* although another mid-market **AP Manager** said, "*Our large customers love that we're paying by ACH and wire-transfer now…. It's the smaller businesses that are a little weary about sharing bank information and prefer a check.* "

Although checks, wire transfer and ACH payments are in place at a high percentage of companies already, it is ACH payments and commercial card products (such as single-use accounts and p-cards) that have shown wide-spread growth over the last two years (See Figure 6). Eighty-one percent (81%) of enterprises report an increase in ACH payments and 50% report a rise in commercial card payments. This is evidence of a major migration from paper checks to electronic payments.

In addition, Ardent's research shows that suppliers are increasingly supportive of this shift. An overwhelming majority of AP professionals (91%) agree that their suppliers are more favorable to accepting ACH payments today than they were three years ago. ACH payments are the least expensive method of making payments and their usage is growing rapidly. In fact, according to NACHA, the organization that manages the development, administration, and governance of the ACH Network, ACH payment volume exceeded 21 billion transactions in 2012. Similarly, 63% agree that suppliers are more favorable to accepting card payments than three years ago. The U.S. Department of the Treasury clearly sees the value of ePayments, making it illegal (as of March 1, 2013) to send social security or other federal benefits by paper check. This move to ePayment is predicted to save U.S. taxpayers more than $120 million a year.

**91% Agree**

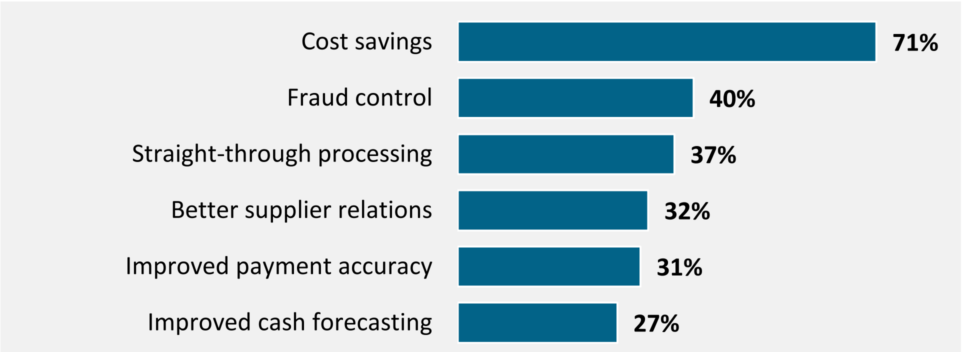
**Suppliers more favorable to accepting ACH payments today than 3 years ago**

**63% Agree**

**Suppliers more favorable to accepting card payments today than 3 years ago**

Electronic payments offer a variety of benefits; chief among those is cost savings according 70% (Figure 15) of organizations. Paper checks are time consuming and tedious to process, and also involve various costs such as printing, mailing, lost checks, wrong addresses, etc. Payment automation increases efficiency as the number of payments processed per FTE ("full time employee") can be considerably higher. Additionally, the speed in which electronic payments can be processed presents greater opportunities to take advantage of early payment discounts that may not be accessible with the slower delivery of a manual check.

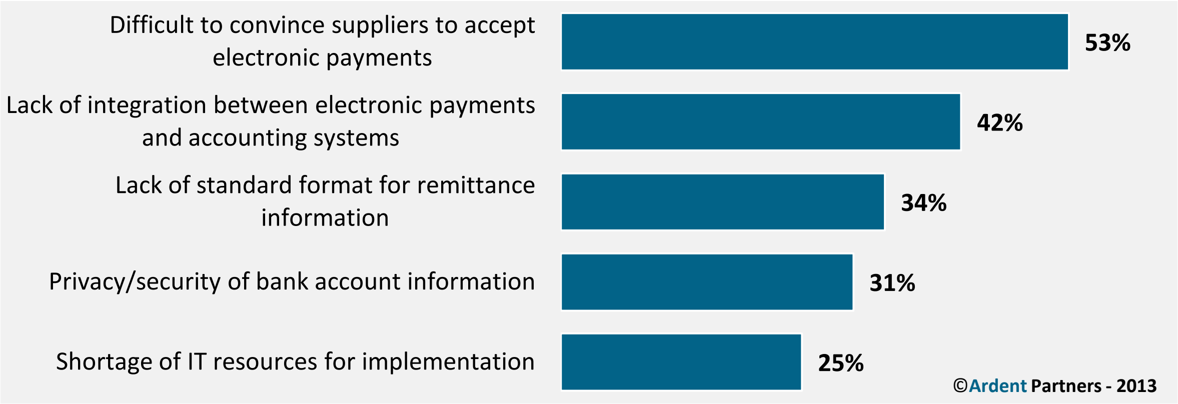
**Figure 15: Benefits of Paying Suppliers Electronically**




Other benefits of ePayments according to our research include improved fraud control (40%) and straight-through processing (37%). Due to the significantly advanced controls and security around ePayments, it is much harder to conduct fraudulent activity. For example, cardless payment accounts such as single –use accounts can be "locked down" to only work with specific suppliers, and have set credit limits and established timeframes to improve control and security over payments. Also, payment solution providers will often maintain all supplier bank account and ACH information, reducing the risk of fraud. Check fraud, however, can include forgeries, altered checks, counterfeit checks, and more. That said, all electronic payment solutions should be vetted to ensure they possess a high level of security.

While Ardent Partners' research shows a tremendous amount of interest in electronic payments, there are challenges that organizations still face when pursuing an ePayment initiative. The high check volumes we still see today means that there are still barriers that need to be overcome in order to drive mass adoption of ePayments (Figure 16). The top barrier to increasing ePayments is still on the supplier side as 53% of AP groups say that it is a difficult task to convince suppliers to accept ePayments.

**Figure 16: Barriers to Increasing Electronic Payments**



Even though this is noted as a major challenge, companies are tackling this issue head on. As one **AP Director** of a large retailer says, "*We have been focused on getting off checks for three years now and have been successful for the most part. Our process begins by requiring new vendors to provide banking information. If they don't provide it, someone reaches out to them. Also, when a check is cut, someone will try to convince the vendor to move to ACH. Another strategy was to reduce the frequency of check runs, we used to do a check run several times a week, now we do it once every two weeks, whereas we do an ACH run twice a week.*"

### *Cash is Now, and Forever, King*

No matter the industry, managing cash flow effectively and more strategically is a fundamental part of ensuring sustainable growth. Cash is the life-blood of any business. Over the short and mid-term, how a company manages its cash inflow and outflow can be vital to its ability maintain operations. In the long-run, a more strategic approach to cash management can help to better identify cash flow trends, understand areas of the business that generate or drain cash, negotiate better payment terms, and ultimately develop a more financially attractive business.

The economic conditions over the past few years have made access to cash and credit more difficult, making the management of cash an even more important aspect. For these reasons, access to accurate data around payables and receivables and establishing key cash flow metrics (such as "days sales outstanding" and "days payable outstanding") are crucial steps to gaining more control and transparency into cash flow and enabling better tracking of cash positions. For example, if a business is consistently paying its invoices faster than it is collecting receivables, there is a potential cash flow issue. Without the right level of visibility and control, the discovery of cash flow issues may occur too late, placing undue risk on the business. According to a **Senior AP Manager** at a mid-market advertising company, *"Accounts receivable is our counterpart, we can't function without them, and they can't function without us. We're in constant communication regarding cash flow, forecasting what are payables are going to be and what funds are available. As far as treasury goes, they need information in order to report payables on a weekly and monthly basis."*

AP automation ("ePayables") solutions provide the ability to transform a manual environment into an automated, more efficient one by removing paper from the process and automating many of the basic AP functions (e.g., data entry, validation and approval/review). Through the deployment of technology that can automate the entire AP process, or part of it, enterprises can better evaluate current cash positions and more accurately forecast cash flow. The adoption of ePayables solutions is on the rise. And, as we will see in the next chapter so are the benefits that AP groups gain from them.

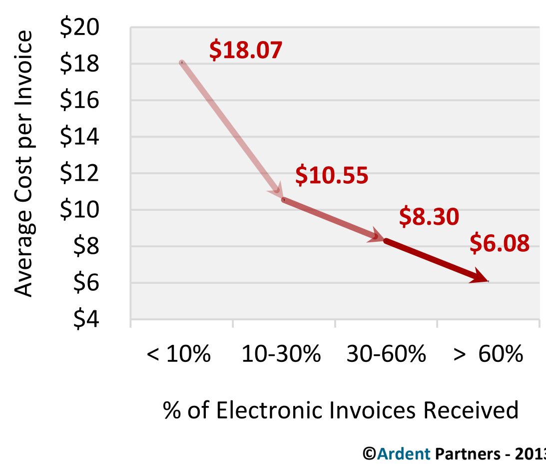
# CHAPTER THREE: ACCOUNTS PAYABLE PERFORMANCE

This chapter on AP performance is designed to help readers accomplish four things:

1. Understand which metrics AP leaders use to measure their department's performance
2. Benchmark their AP performance to industry averages, and understand how they are performing relative to the average AP department
3. Understand which operational and performance metrics define Best-in-Class performance levels for AP departments
4. Understand what the Best-in-Class AP departments are doing (or not doing) to outperform their peers

Ardent Partners' research over the past few years has shown that while the average AP department still lacks automation, executive focus, and general alignment with the enterprise, leading enterprises are using their AP function to a competitive advantage. Since cost is one of the biggest drivers of this advantage, it makes sense to drill down into this area. It has been clear for many years that manual and paper-based processing (for invoices and payments) is more costly than a fully- or partially-automated process. This still holds true today.

**Figure 17: Electronic Invoice Impact on Cost**




For the companies that participated in this research effort, the average cost to process an invoice was just over $13. To determine the impact that technology has on invoice processing costs, Ardent analyzed how the average cost per invoice changes as the percentage of electronic invoices received increases (Figure 17). Companies that received less than 10% of their invoices electronically (including eInvoice, EDI/XML, and via a web-form) had an average cost per invoice of $18. As the chart shows, the more electronic invoices an enterprise receives, the lower the cost to process an invoice. Receiving more invoices electronically reduces the need for data entry or manual validation and matching, which is all done automatically with eInvoicing. Digital formats also enable straight-through processing, which makes the approval process more efficient and greatly increases the number of invoices processed per FTE, thereby reducing operational costs.

## Performance Benchmarks

The measurement of performance metrics is an important part of understanding any business function. AP and finance leaders can use the benchmarks in Table 1 to compare their performance to the overall market and then better identify and understand the bottlenecks and hurdles to superior performance that must be surpassed. It is important to note that metrics used to drive performance improvement should also be relevant. For example, there is no point in measuring percentage of invoices processed straight-through if there is no such capability. According to the **AP manager at a mid-market online media company**, *"The biggest change recently for AP has been the use KPIs, this really helped us to evaluate our processes and performance."*

As mentioned, the average cost to process an invoice is lower than in years past ($13.10) but there is still plenty of room to improve efficiency as Best-in-Class AP groups have proved. Key metrics that measure efficiency include the number of invoices processed per FTE per month, which on average is 2,212 invoices, and percent of invoices processed straight-through, which is 25.4%. These are both drivers of the cost per invoice; the higher each of these metrics are, the more efficient the overall operation.

Another driver of both cost and efficiency (as shown in Figure 17) is the percentage of electronic invoices received. For instance, if the percentage of electronic invoices received by the average company (26.2%) was to double, based on Ardent's analysis, the cost to process an invoice could be reduced by $4 – $5.

Additionally, the amount of time taken to process an invoice, 9.3 days on average, can have consequences that go beyond tactical issues into the more strategic area of cash management and forecasting. The quicker an invoice gets processed, the sooner it is noted as a financial liability in the corporate books and the more likely the opportunity of capturing an early payment discount.

**Table1: The AP Benchmarks: Market Average**

| Metrics | Average |
|---|---|
| Cost to Process an Invoice | **$13.10** |
| Number of Invoices Processed per FTE per month | **2,121** |
| Percent of Invoices Processed Straight-Through | **25.4%** |
| Percentage of Invoices Received Electronically | **26.2%** |
| Percent of Suppliers that Submit Electronic Invoices | **20.1%** |
| Average Time to Process an Invoice | **9.3 Days** |
| Invoice Exception Rate | **11.9%** |
| Paid On-Time Percentage | **78.6%** |
| Percentage of Duplicate or Overpayments | **2.12%** |

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## Best-in-Class Performance

This section will discuss the performance and operational results of Best-in-Class organizations as compared to all other enterprises. Ardent Partners defines Best-in-Class performance in this research effort as the 20% of enterprises with the lowest average invoice processing cost and shortest timeframe in which an invoice is processed.

### *Processing Performance*

| Metrics | Best-in-Class | All Others |
|---|---|---|
| Cost to Process an Invoice | **$2.20** | **$19.10** |
| Number of Invoices Processed per FTE per month | **3,559** | **1,335** |
| Percent of Invoices Processed Straight-Through | **44.2%** | **18.4%** |
| Percent of Suppliers that Submit Electronic Invoices | **41.8%** | **14.5%** |
| Average Time to Process an Invoice | **3.3 Days** | **13.5 Days** |
| Invoice Exception Rate | **7.7%** | **16.1%** |

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Those organizations that have achieved Best-in-Class performance are able to process invoices at a cost of $2.20 per invoice. A large part of their superior efficiency is due to the use of technology to complete the most time-consuming and costly manual AP activities. On average, Best-in-Class organizations are processing in excess of 2,000 invoices more per FTE than competing AP operations. This advantage is possible because (1) Best-in-Class AP groups have almost three times as many suppliers that are able to submit electronic invoices, and (2) Best-in-Class enterprises are processing 44.2% of their invoices without the need for human intervention as opposed to only 18.4% in other enterprises.

The time taken to process an invoice is an important metric to monitor and focus on reducing. Best-in-Class AP operations are able to process an invoice 4.5 times faster than other companies. For those on the lower end of the technology scale, processing times are greatly delayed due to slow and error prone manual data entry and delays in approvals. This issue is quickly overcome by utilizing document imaging and data capture solutions which take a fraction of the time of manual data entry. Once data is appropriately captured and in the system (whether using data capture or eInvoicing technology), it can be validated and matched using a series of business rules and vendor master lookups. When this is combined with automated workflow capabilities, the time taken to process an invoice is reduced even further. In order to extend the value proposition of eInvoicing specifically, enterprises should consider the use of networks, which have the potential to significantly reduce the time and effort involved in supplier enrollment. Certain networks also have the capability to project the buying organization's business rules onto the supplier while creating an invoice, ensuring that the eInvoice submitted meets certain requirements. Participation in a network also enables buyers and sellers to participate in more strategic activities around working capital optimization, such as dynamic discounting or supply chain finance.

### *Payment Performance*

| Metrics | Best-in-Class | All Others |
|---|---|---|
| Percentage of Invoices Paid On-time | **91.4%** | **70.8%** |
| Percentage of Duplicate and Overpayments | **1.07%** | **3.12%** |

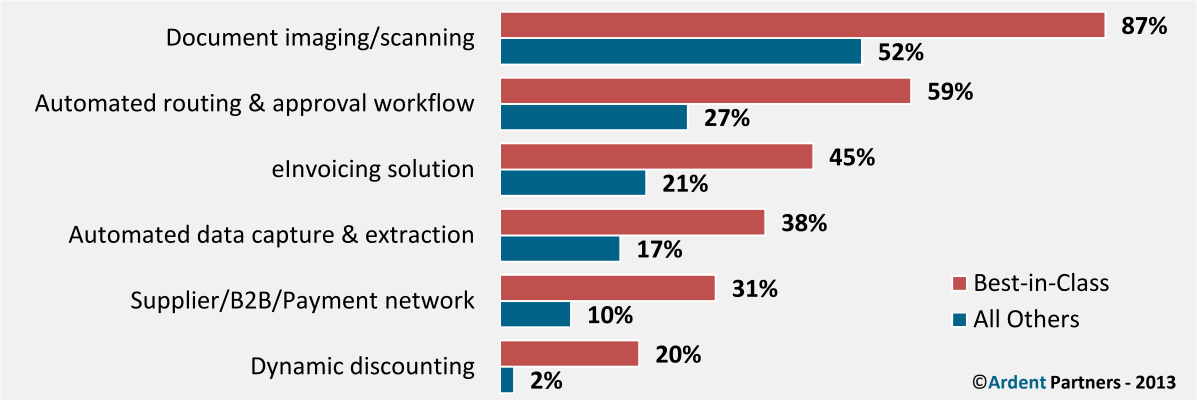


The ability to make payments within the specified parameters (i.e., before the due date or earlier if there is a discount involved) is a hallmark of efficient AP operations. Payment performance is a key metric that AP groups and suppliers track, but one that can be important to procurement since having a high "paid on-time" percentage is always beneficial to supplier relationships, and is something that can be leveraged during future negotiations. Best-in-Class organizations have a much higher paid on-time percentage (91.4%), while all other AP departments execute 70.8% of their payments on-time. Late payments can occur for a number of reasons, including manual processing delays, errors and discrepancies that have to be resolved, a lack of communication between buyer and supplier, and relying on paper-based payment methods (checks). If not addressed appropriately, a low on-time payment rate can create discontent and tension with the affected suppliers.

Overpayments and duplicate payments are enough of an issue for AP groups that an entire industry of AP audit recovery firms exists solely to identify and recover these erroneous payments. Some of the causes for this include a lack of accurate information and appropriate validation steps, such as inconsistencies in the vendor master file (e.g., duplicate vendor records, expired vendors, etc.) or paying from non-original invoices. Best-in-Class AP departments have a very low percentage of duplicate and overpayments (just over 1%) while all other AP groups are at approximately 3%.

Overall, Ardent's research has shown that an increasing use of ePayables technology yields tangible benefits in AP productivity, and results in improvements that can impact the treasury and procurement organizations. Technologies such as data capture and eInvoicing and electronic payments drastically improve visibility and accessibility to accurate, real-time invoice and payment data. Having more accuracy and intelligence around financial liabilities can help treasury implement better cash management strategies and optimize working capital. On the other hand, procurement can benefit hugely from access to both invoice and payment data in order to better understand enterprise spend and enforce compliance to negotiated contracts. As shown in Figure 18, Ardent's research uncovered a higher level of technology usage among Best-in-Class enterprises versus all others. The largest disparities between the two groups are around the usage of document imaging, automated routing/approval workflow, and eInvoicing solutions; it is also evident with other solutions.

**Figure 18: Best-in-Class Vs. All Other Technology Usage**




## *Best-in-Class Characteristics*

While it is apparent that Best-in-Class AP operations leverage technology to improve their performance and value to the enterprise, technology is merely the means to an end. An investment in technology by itself without contemplation of other factors such as people, processes, and policies is unlikely to yield a high return. One aspect where Best-in-Class AP groups show significant maturity is in the linkage of the P2P process. These top performing enterprises are 90% more likely to effectively link the various P2P processes, which begin with spend analysis and sourcing, and include contract management, eProcurement and AP. Linking these processes allows for a more holistic approach to enterprise spend management and supplier relationship management; it also enables a greater degree of accuracy and intelligence throughout the entire process.

The other area where Best-in-Class enterprises excel is in their ability to measure key metrics. They are 74% more likely to have the capability to measure both productivity (e.g., invoice processing cycle time, invoices processed straight-through) and financial metrics (e.g., invoices coming due, discounts coming due, goods received not invoiced). This is an important characteristic as performance can only be improved if it is measured.

When it comes to the establishment of working capital optimization policies and procedures, Best-in-Class companies are certainly ahead of the curve. As a group, they are 64% more likely to have these controls in place as compared to other enterprises. Working capital optimization is only achieved through the implementation of comprehensive processes and measures that are applied across all operational areas of a company, especially AP, due to its essential role in managing payments. Establishing procedures and controls that are designed to optimize working capital should be a top priority for enterprises.

# CHAPTER FOUR: STRATEGIES FOR SUCCESS

Ardent recommends the following strategies and approaches for AP departments seeking to improve their performance, and transform their organization's value and standing within the enterprise. The level of performance that Best-in-Class enterprises have been able to achieve is a testament to the potential available to other AP operations. A new dawn, and a new day, awaits those forward thinking AP groups that seek to move to the next level of performance, and drive ultimate value from this critical function.

- **Develop an initiative to remove paper-based invoices and payments –** The high cost of processing manual invoices and payments results in large inefficiencies and missed opportunities. As such, removing paper from the process should be a top priority. Take whatever method is most accessible and appropriate for your organization. One approach to consider is a multi-solution, or portfolio approach, to removing paper. For invoicing, groups may utilize eInvoicing and put in place strategies to maximize the number of invoices received in this manner, while also deploying imaging and data capture capabilities to handle those suppliers that continue to send paper invoices. With this approach, target suppliers that are best-suited for eInvoicing, while the remaining continue to send paper, PDF or email invoices. Similarly, for payments, offer suppliers the option to be paid electronically, and highlight the associated benefits of this approach for the supplier. Establish migration goals and multi-year targets, and track the percentage volumes for both manual and electronic invoices and payments.
- **Establish a strategy to onboard suppliers** – Whatever path is taken to remove paper invoices and payments from the AP process, supplier enablement should be contemplated as part of any strategy. Whether going down the eInvoicing path and/or migrating checks to electronic payments, the more suppliers that participate, the better the returns are going to be, and the more impactful the overall initiative will be. Depending on the capabilities and resources available to the AP or procurement team, it may be in the best interests of an eInvoicing and/or ePayment project to involve a third-party to undertake supplier enablement. A strong and well-managed communication campaign can make the difference between a small percentage of suppliers being on-boarded or a sizeable majority. The execution of the communication plan is as important as the message itself: make sure that the right suppliers receive the right message. Investigate payment/business networks to determine if any have a significant percentage of current suppliers already enabled.
- **Establish key performance indicators (KPIs)** – In order to improve performance in AP it is necessary to establish the right metrics and continuously measure and improve upon

them. KPIs are critical to understanding AP's current state and evaluating the progress that is being made. Performance metrics show productivity improvements, efficiency, cost reductions, and identify areas that need improvement. Accurate and real-time metrics can also help avoid erroneous or late payments and can uncover critical information in regards to early payment discounts. Metrics are an effective method for AP groups to show their value to the enterprise, however, it is important to ensure that they actionable, relevant, and aligned with the goals and objectives of the larger enterprise. They should be clearly identified, defined, and effectively communicated to all relevant stakeholders, and, in some cases, multi-year milestones should be established.

- **Aggressively push electronic payments** – Checks are very quickly becoming a thing of the past, in Europe and other regions, checks have almost vanished and suppliers expect to be paid electronically. While there has been a decline in the usage of checks in the U.S., an aggressive strategy is still needed to ensure a significant migration to ePayments. Not only are there cost benefits associated with ePayments, AP can drastically improve controls, accuracy, and access to data by paying electronically. With all the different forms of ePayments that are available, taking a portfolio approach that utilizes the right form of payment for the right supplier or spend category has become an industry best practice. Optimizing the various forms of payments has the potential to deliver more efficiency, higher savings and better relationships with suppliers. Consider participating in a network that has a large supplier base that already accepts various forms of ePayment.

- **Consider the larger P2P process in an AP transformation initiative** – The P2P process is one that involves procurement, AP and suppliers; while the groups may collaborate, it is important that the processes and systems are linked in some way. Although the performance of each group, at a high level, can certainly drive value for the larger enterprise, it is only after both of these processes are well-managed and tightly-linked that a P2P organization can begin to realize its full potential and become a truly strategic operation that supports key business objectives. Some of the opportunities that exist include being able to improve contract compliance and reduce maverick spend, the ability to track supplier performance and strengthen relationships, and the optimization of working capital across the P2P process by developing proactive payment strategies and pursuing dynamic discounting opportunities.

- **Work with treasury to support working capital optimization strategies** – In today's business environment, the issue of working capital has been forced to the top of the CFO's agenda. Consequently, treasurers and their financial operations (e.g., AP and AR) have to up their game in terms of delivering accurate and real-time cash flow forecasts. In an environment where liquidity is scarce, visibility into cash flow and accuracy around forecasting are critical in developing and maintaining an effective working capital management strategy. AP plays an essential role in capturing and providing transaction-level data regarding invoices and payments, while working to reduce costs and improve efficiency. Enabling greater control over cash and implementing optimization strategies is not possible without access to this level of data. Leveraging automation to process invoices and payments (and the use of ePayments) will ensure that an enterprise's financial operation is equipped to optimize working capital in a more strategic and sustainable manner.

## ABOUT ARDENT PARTNERS

**Ardent Partners** is a Boston-based research and advisory firm focused on defining and advancing, the accounts payable, procurement, and supply management strategies, processes, and technologies that drive business value and accelerate organizational transformation within the enterprise. Founded by Andrew Bartolini, Ardent also publishes the CPO Rising and Payables Place websites. Register for access to Ardent Partners research at ardentpartners.com/newsletter-registration/.

## ABOUT THE AUTHOR

**Vishal Patel, Research Director and VP of Client Services at Ardent Partners**

Vishal Patel is a recognized expert in the world of accounts payable and supply management. He has worked closely with accounts payable and procurement groups for most of his career, researching best practices and advising clients on how to utilize technology to improve organizational performance. Vishal is the lead analyst for Ardent's ePayables (Accounts Payable automation) coverage and is also responsible for the oversight of certain AP solution selection and benchmarking projects.

Vishal is also the author of the **ePayables *SMART*Set™**, a low-cost, comprehensive set of research tools and templates designed to guide organizations through the process of automating their process and selecting the best-fit solutions for their specific requirements and budgets.

Vishal joined Ardent from a technology provider, where, as Director of Business Development, he helped establish and grow the company's US business by helping corporations de-couple their marketing supply chains and drive significant savings. Earlier in his career, Vishal was a Research Director in the Global Supply Management research practice at Aberdeen Group where he led and supported the coverage of many key areas including contract management, commercial cards, ePayables, and complex category management.

Vishal has been named a "Pro to Know" by Supply and Demand Chain Executive and holds a B.S. in Finance and International Business from The Pennsylvania State University and an M.B.A from Babson College. He welcomes your comments at vpatel@ardentpartners.com or +1. 917.470.9522.

## RESEARCH METHODOLOGY

Ardent follows a rigorous research process born from years of market research experience conducted in the accounts payable ("AP") market. The research in this report represents the web-based survey responses of 245 business professionals and includes interviews from several AP and finance executives. These 245 participants shared their strategies and intentions, as well as their operational and performance results to help us define Best-in-Class AP performance and understand what levers the leading groups pull to obtain their advantage. This primary research effort is based upon the survey responses, interviews, and the experience and analysis of the report author. Complete respondent demographics are included below.

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### REPORT DEMOGRAPHICS

The research in this report is drawn from respondents representing the following demographics:

**Job Function**

- Accounts Payable – 62%
- Finance – 22%
- Treasury – 6%
- Other – 10%

**Title**

- C-Level – 9%
- Senior Director/Director – 18%
- Senior Manager/Manager – 42%
- Staff – 17%

**Company Size**

- Over $5 billion – 19%
- $1 to $5 billion – 24%
- $500 million to $1 billion – 21%
- $250 million to $500 million – 18%
- Under $250 million – 17%

**Region**

- North America – 88%
- Europe – 7%
- Other – 5%