10 ACCOUNTS PAYABLE KPIS YOU SHOULD BE MEASURING

METRICS THAT IMPACT YOUR AP PERFORMANCE THE MOST

COMING UP ...

IF YOU CAN'T TRACK IT, YOU CAN'T CHANGE IT

Key Performance Indicators (KPIs) mean a lot of things to a lot of organisations. The same way pilots monitor flight instruments or coaches track statistics, business leaders must also rely on metrics to guide their decisions and measure their success — especially when it concerns accounts payable (AP).

The AP department, once viewed as a peripheral back-office function, is now one of the central drivers of business profitability. In an era of supplier shortages, demand fluctuations, increased operating costs and liquidity pinches, the influence AP has on the overall health of an organisation is only continuing to grow — and as AP's importance expands, so too has the spotlight on its people and processes. KPIs are a simple and effective way to make sure each touch point is optimised and every user is held accountable.

The problem is, AP decision makers don't always know if they're tracking the right KPIs and often lack the tools to do so effectively. With 55% of AP leaders now putting improvement of AP reporting and analytics at the very top of their priority lists[1], these metric-tracking tools are proving their importance as we look to the future.

This ebook is for anyone wanting their AP department to realise its full potential. As you'll learn, KPIs, when used correctly, are a transformative tool to do just that.

1 The State of ePayables 2021: Operating in the New Normal, June 2021. Ardent Partners.

ALL METRICS MATTER ...
SOME JUST HAVE A BIGGER IMPACT

There are an infinite number of KPIs an AP department can track. And that's part of the problem ... more is not necessarily better. It's a typical "quality over quantity" situation. Just like a doctor measures only a handful of vital signs, you too should focus your insights on a select group of KPIs that have the most impact on your company.

The current business landscape and pandemic economy have only added to AP's strategic value. So, as finance leaders' goals and priorities continue to shift, the metrics they've been tracking up until now might not being reflecting an accurate view of AP performance anymore.

In our experience, these 10 are the bee's knees when it comes to assessing AP performance and eliminating costly inefficiencies.

#1 COST TO PROCESS A SINGLE INVOICE

In a time where cash is more important than ever, AP departments need to know what they're paying to process each invoice and have a strategy in place to mitigate costs.

FACTORS TO CONSIDER

The total cost to process one invoice can be tricky to pinpoint. To get an accurate assessment, consider every expense involved in AP processing, including:

- Costs associated with routing
- Copying and follow-up
- Staff salaries
- Managerial overhead
- IT support

WHAT THE NUMBERS SAY

According to a 2021 Ardent Partners study, the average cost to process an invoice with little automation is $10.95.[1] Yikes — that's a big hit to the bottom line! Those that have developed a more mature level of automation are processing invoices at only $2.25 on average.

BEST PRACTICES

Take **Valdese Weavers** for example. By automating their manual AP operation, the company is now saving $40-50,000 annually thanks to drastic reductions in paper and postage costs, and another $18,000 by reducing time spent on manual tasks.

#2 TIME TO PROCESS A SINGLE INVOICE

There's a reason people say time is money. In order to maximise AP's profit-generating potential, companies must identify what's slowing their process down and how to fix it.

WHAT'S AT STAKE

The time it takes to process a single invoice is a good KPI for determining how much value an AP department is either wasting or adding on a regular basis. The longer the processing time, the more likely it is you're losing money on things like:

- Missed vendor discounts
- Late-payment fees
- Low staff productivity
- Vendor dissatisfaction

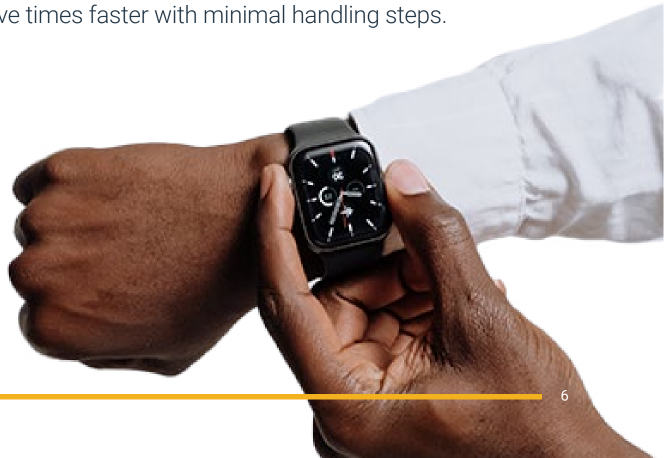
WHAT THE NUMBERS SAY

According to the previously mentioned 2021 Ardent Partners study, the average time to process an invoice with little automation is 11.9 days[1], while those with mature levels of automation process invoices in 3.3 days on average — that means companies that leverage automation process invoices 73% faster.

BEST PRACTICES

If your company is seeking a faster, more coordinated AP operation, electronic workflow is where it's at. An end-to-end automation solution eliminates the time-consuming manual tasks associated with AP invoicing while creating new workflow efficiencies not previously possible, such as mobile approval and more.

By automating AP, **Feu Vert** increased productivity so much that it managed to reduced processing time by six days. **Jardiland** experienced similar time savings, as they are now processing invoices five times faster with minimal handling steps.



#3 INVOICES PROCESSED PER DAY PER FULL TIME EQUIVALENT (FTE)

Measuring staff productivity is a way to optimise AP invoicing even further, as what you learn from this KPI can be used to improve multiple areas of your operation.

HOW TO CALCULATE

The FTE calculation is an employee's scheduled hours divided by the employer's hours for a full-time work week. To determine the number of invoices processed per day per AP clerk, follow these three simple steps:

1. Take the number of AP invoices processed per month.
2. Divide that by the number of FTEs who handle them.
3. Lastly, factor in who's responsible for what aspects.

Note: There's not a definitive market average for this KPI due to all the factors that play into the calculation.

WHY IT MATTERS

No, it's not just to catch lazy employees, but it does help to see where and with whom invoices are spending the most time. Not only does measuring this KPI provide a clear record of how many invoices are coming in per day and employee activity, it can also help you pinpoint what suppliers are causing staff the most problems.

BEST PRACTICES

Once again, AP automation is the clear solution. Besides accelerating processing time, it boosts job satisfaction with AP clerks and frees them up for more valuable activities. In fact, an **IOFM study** found that organisations with no automation can process 10,353 invoices per FTE on average.[2] But with automation, that number increases to 14,792 per FTE.

For example, **Parts Town** was able to increase productivity 60%, going from 57 invoices per day per user to 92.

2 World Class AP Performance: Efficiency Benchmarking Metrics, 2021. IOFM.

#4 INVOICES LINKED TO A PO

If it impacts processing time and cost, you better believe it's worth tracking. Smart AP departments use this KPI to gauge how seamless their process really is and see where improvement is needed.

WHY IT MATTERS

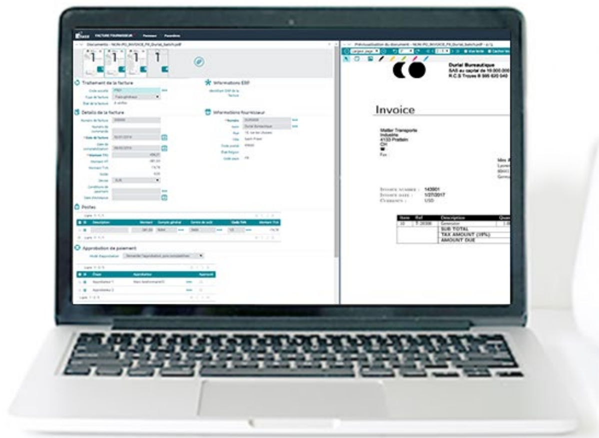
Invoice validation is a key step in the approval process, so it makes sense that delays — like those caused by information not matching the PO — would be of great concern to the AP team. In general, the lower your percentage of invoices linked to a PO, the slower, more expensive your AP process will be.

WHAT THE NUMBERS SAY

According to findings from Ardent Partners' 2020 study, the market average for the percentage of invoices linked to a PO is 44.3%.[3] On the other hand, those dubbed as "best-in-class" with high levels of automation have an average of 80.2%.

BEST PRACTICES

Top performers go beyond workflow automation to connect vital AP functions with other processes. For example, using a procurement solution along with AP automation enables all invoices to be PO-based and auto-matched with the corresponding PO and goods receipt. This speeds up processing time and allows for more cost savings like dynamic discounting.



3 The State of ePayables 2020: Ensuring Continuity, Building Resiliency and Rising to the Challenge, June 2020. Ardent Partners.

#5 INVOICE EXCEPTION RATE

Invoice exceptions are the bane of existence for AP clerks. Accounts payable staff spends a staggering amount of time managing and correcting invoice exceptions. To maintain process efficiency, AP departments should track and continually review this KPI.

WHAT'S AT STAKE

Considering the regularity of exceptions, it's easy to see why they pose such a problem. The amount of time and resources required to resolve them is a big reason why AP departments underperform. More often than not, exceptions are caused by:

- Discrepancies in PO and invoice data
- Missing/incorrect PO
- Bottlenecks in approval workflow

WHAT THE NUMBERS SAY

Based on findings from an Ardent Partners study, the market average for invoice exception rates in 25.5%, compared to 10.1% for those in "best-in-class" standing.[1] That's a 61% lower exception rate for highly automated AP departments, and those teams are saving a lot of time right now without all those exceptions to deal with.

BEST PRACTICES

The secret to lowering exception rates is really no secret at all — standardise your process as much as possible. Accounts payable automation solutions often allow for 3-way match verification so issues are handled quickly and correctly. Take the case of **European Motor Distributors**, a company that was able to drastically improve their supplier relationships as invoices are never lost and always paid on time.

#6 STRAIGHT-THROUGH INVOICE PROCESSING

With no manual intervention is needed, straight-through or "touchless" processing is significantly cheaper and faster than manual methods. Measuring and improving this KPI is key to maximising margins and efficiency.

WHY IT MATTERS

Invoices that are automatically processed without any human intervention take only a fraction of the time as ones that have to be processed manually. Organisations with high levels of straight-through processing benefit from:

- Lower costs
- More time for value-added activities
- Greater security
- Increased business efficiency
- Supplier satisfaction

WHAT THE NUMBERS SAY

Ardent Partners found that in 2021, highly automated, "best-in-class" organisations are able to process 67.1% of invoices straight through, compared to 21.3% for all others[1] — that's the kind of time savings you can take right to the bank.

BEST PRACTICES

There's only one way to process invoices with zero human input, and that's AP automation. The key to improving this KPI is simple: increase automation for more straight-through invoice processing. **Feu Vert** experienced this benefit firsthand. After implementing AP automation, they were able to process 88% of invoices without any human intervention.

#7 SUPPLIERS THAT SUBMIT INVOICES ELECTRONICALLY

Getting suppliers to submit invoices electronically is the best way to speed up processing and make it easier for other companies to do business with you.

FACTORS TO CONSIDER

There are two parties included in this metric: your company and your suppliers. Providing a way for suppliers to submit invoices electronically is only half of the equation. The other half is actually getting them to use your technology. The ability to onboard suppliers quickly and easily plays a big role in increasing the amount of electronic invoices submitted.

WHAT THE NUMBERS SAY

A positive for this KPI is that it's increased 25% from last year,[4] as the pandemic forced many to cease in-person work, and electronic invoicing was a clear solution. On average only 37.8% of suppliers submit invoices electronically, while top-performing AP teams receive an average of 61.9%.[1]

BEST PRACTICES

The path to fewer paper invoices is threefold:

1. Automate AP
2. Enable suppliers to submit invoices using your technology
3. Repeat step two as much as possible

Sunway can testify to this method. After automating, they're now receiving 50% of invoices from suppliers electronically.

4 Accounts Payable Metrics That Matter in 2021, February 2021. Ardent Partners.

#8 EARLY PAYMENT DISCOUNTS CAPTURED

It's a win-win situation that lets you pay less for paying faster, and a KPI you should be tracking and capitalising on.

WHY IT MATTERS

Now more than ever, businesses are doing whatever they can to optimise cashflow. Early payment discounts allow you to keep more money in your company pocket, while also benefitting your suppliers' bottom lines — helping to build stronger, longer-lasting supplier relationships.

WHAT THE NUMBERS SAY

For the third year in a row, Ardent Partners' research saw a rise in early payment discounts being captured, with a 15% increase in the past year alone.[1] This can most likely be attributed to supply chain disruptions that caused business leaders to shift focus to maximising savings and working capital.

BEST PRACTICES

Paying suppliers early is impossible without a streamlined AP process. And as you know by now, the best way to accomplish that is through AP automation. More automation means invoices can be processed faster. The faster invoices are processed, the earlier you can pay and the more discounts you can capitalise on.

Take it from **Parts Town**. They achieved 30% in additional savings each month thanks to a 50% increase in capture of early payment discounts. Or **Farmland**, who reduced the number of outstanding AP accruals by $8 million, gaining an additional $29,815 in discounts and cost savings equal to three FTEs.

#9 ON-TIME PAYMENTS

If you can't pay early, paying on time is the next best thing you can do to avoid paying late fees and straining relationships with suppliers.

WHAT'S AT STAKE

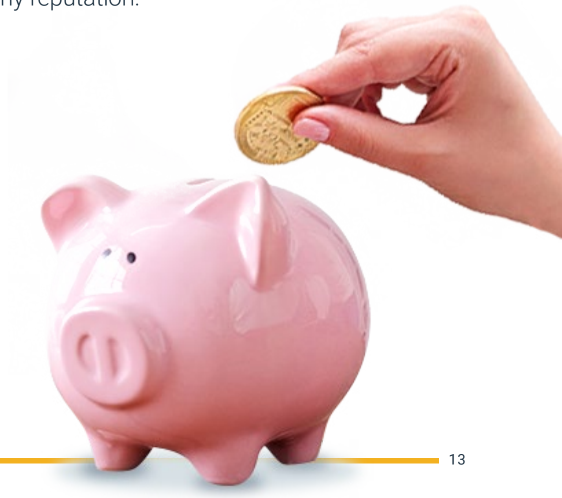
The health of your bottom line is what's at stake with this one. A low rate of on-time payment is usually associated with highly manual AP processes that require more time and resources. Additionally, vendors are happier to do business with organisations that they trust to pay on time, every time.

WHAT THE NUMBERS SAY

Every AP department should be striving to achieve payments that are on time and accurate 100% of the time. Late payments can have ripple effects that negatively impact short-term cashflow and long-term bottom line health.

BEST PRACTICES

Accounts payable automation provides real-time visibility, greater accuracy and faster cycle times that make it possible to ensure on-time payment every time. For example, one **global pharmaceutical company** automated payables and increased its on-time payments to 99.9%. Likewise, **Maxim Integrated** achieved a 95% on-time invoice payment rate, which has helped improve vendor relations and enhance company reputation.



#10 DAYS PAYABLE OUTSTANDING (DPO)

While more strategic and complex to calculate, DPO is one of the few KPIs that can demonstrate AP's value beyond invoice processing and help justify department costs.

FACTORS TO CONSIDER

Unlike the other metrics mentioned, DPO is much more subjective and ultimately dependent on cashflow strategy. DPO is the efficiency ratio for how long it takes for a company to pay its suppliers, and it can pack a major punch when it comes to working capital. It can also be the determining factor between suppliers considering your company a "good client" or a "bad client."

WHAT THE NUMBERS SAY

There's currently no benchmark for a "healthy" DPO due to the variability of industry, competitive positioning and bargaining power of organisations. That's why keeping a close eye on your DPO and your competitors' DPO is important for gauging your payables performance.

BEST PRACTICES

There are two other factors that play a role in determining your ideal DPO: percentage of on-time payments and payment terms with vendors. Aside from negotiating better payment terms with suppliers, the easiest way to improve DPO and overall cashflow is by automating AP processes. Automation helps to achieve a higher on-time payment rate and provides the real-time visibility needed to better control DPO.

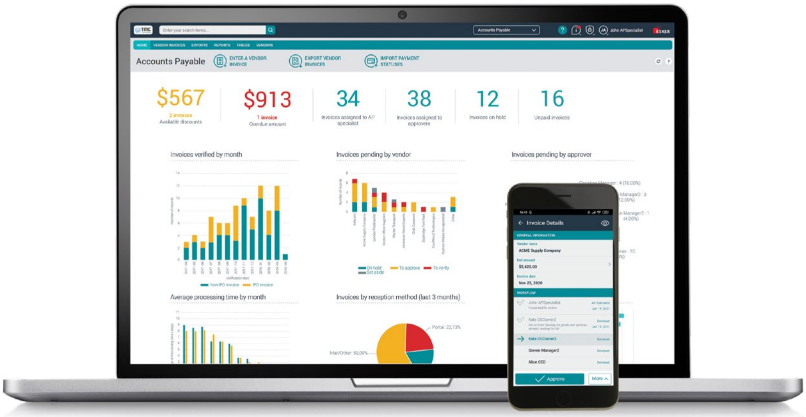
AP TRANSPARENCY THROUGH REAL-TIME ANALYTICS & DASHBOARDS

Knowing what KPIs to measure is one thing, but it's another to have the technology in place to strategically display, sort and coordinate the data you're collecting. As we've seen, e-invoicing tools streamline AP workflow, but can they offer similar benefits in terms of KPI management?

After seeing how Esker's comprehensive dashboards work, we think you'll find that the answer is a definitive "yes."

ESKER'S INTUITIVE DASHBOARDS

When a company automates AP with Esker's cloud solution, received invoices are automatically queued for processing and made 100% visible and accessible via built-in dashboards. Users can choose what KPIs are displayed on their interface, making every action smarter and more deliberate.



FEATURES THAT DRIVE AP EXCELLENCE

The last thing companies want when modernising AP invoicing is to deal with the complexity of disparate, incompatible solutions. Esker dashboards offer a larger, unified platform that houses all the tools and technology needed to achieve AP efficiency and drive continuous improvement. Here are autorotation's most prominent features and benefits:

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MULTI-CHANNEL PLATFORM

Esker offers a single, collaborative and cloud-based platform that promotes invoice visibility and reception channels, including EDI. With one process consolidating all invoices — no matter the reception channel — AP departments can help streamline the P2P cycle and businesses can grow without operational restraints.

AI-DRIVEN DATA RECOGNITION

Esker's Artificial Intelligence (AI) Engine can manage and analyse all invoice data. For example, Esker's deep-learning technology can train itself to automatically recognise and suggest a split for a batch of supplier invoices arriving into your AP department for the first time — even if some invoices are multiple pages.

CUSTOMISABLE DASHBOARDS

Esker's solution is equipped with intelligent dashboards that display live, visual analytics (e.g., AP cashflow, AP process metrics, spend by category, volume and supplier, requests pending approval, budget control and forecasts, etc.) for fully customisable data tracking.

FEATURES THAT DRIVE AP EXCELLENCE (CONT.)

ESKER ANYWHERE™ MOBILE APP

Esker Anywhere™, enables managers to review and approve supplier invoices and track KPIs while on the go directly from their Apple or Android devices. Users also have the opportunity to collaborate by entering comments for others involved in the workflow.

SUPPLIER SELF-SERVICE PORTAL

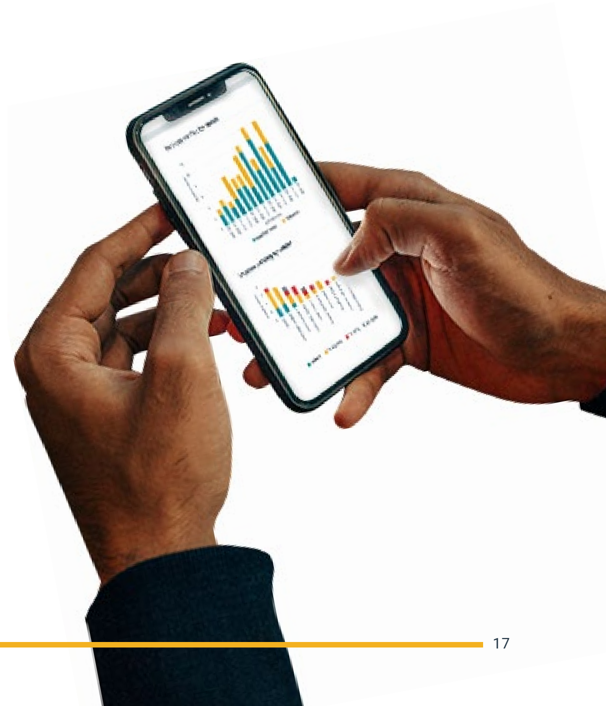
As part of Esker's Accounts Payable solution, a convenient online portal gives suppliers self-service access to payment information, helping them get paid quicker and reduce costs, and save your company time and money previously allocated to responding to invoice status calls.

PAYMENTS

A robust payment automation solution, Esker Pay leverages Fintech partnerships to help users better manage cashflow by eliminating complex and inefficient AR and AP processes and capitalising on offerings like supply chain financing and dynamic discounting.

SUPPLIER MANAGEMENT

Esker's Supplier Management solution helps manage supplier information and automate processes across the supply chain. With its 360-degree view of supplier information, users can effectively manage compliance, minimise risk, gain full process visibility and reduce AP staff workload.



TO SUM IT UP ...

There is no magic wand or secret formula for becoming a top-performing AP department. Making the jump from average to best-in-class is as simple as this two-step process:

1. Measure the most valuable KPIs according to your operational goals and evaluate them over time

2. Leverage a solution that can optimise KPI management while improving AP invoicing as a whole.

HEY, WE'RE ESKER.
AND OUR MISSION IS YOUR MISSION.

In an increasingly uncertain world, business success is multi-faceted. More than just cutting costs, it's about long-term value creation and relationship building. Esker is a global cloud platform that's built to unlock this strategic value — embodying the same mission and over-arching goals shared by our customers.

BUSINESS RESILIENCE

By automating finance & customer service processes, Esker users are in a better position to withstand shock & adapt, protect weak spots, & anticipate future risks.

HARMONIOUS ECOSYSTEMS

Success is not attainable without a healthy business ecosystem. Esker empowers you to become "easy to do business with," promoting greater trust in an era of increasing skepticism & cynicism.

POSITIVE-SUM GROWTH

Growth is not meant to be a one-sided affair. With Esker, the benefits extend beyond the company to employees, customers & suppliers — never coming at another's expense.

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