AP EXCELLENCE:
The Defining Traits of Best-in-Class Performers

IOFM Institute of Finance & Management

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Inefficiency has always been a challenge for the accounts payable (AP) function.

But the disruption caused by the shift to remote working has exposed and exacerbated shortcomings in the way that AP departments operate. As a result, AP staff are working longer hours. It's harder for AP departments to pay invoices on time. Accessing information is more complicated. And duplicate payments and other errors and mistakes are taking a big bite out of reduced profit margins.

Broken and inconsistent processes are largely to blame for this friction in the invoice-to-pay cycle.

> Most companies have automated less than half of their back-office functions[1].

By combining end-to-end automation with consistent processes, AP departments of any size and in any industry can eliminate the friction in their invoice-to-pay lifecycle and achieve top performance.

This white paper will show you how.

The importance of process maturity

Automation is the table stakes for becoming a top performing AP department.

> More than three-quarters (**77%**) of AP departments have some form of automation[2].

That's not to say that AP departments have finally rid paper and manual processes from their operations. IOFM recommends that AP departments consider the progress they have made in automating their processes end-to-end, including invoice receipt, data capture, invoice approval, invoice and PO matching, and supplier payments. Here's how to measure where you stand:

- **No automation** is defined as having automated none of these processes.
- **Low automation** is defined as having automated no more than two of these processes.
- **Significant automation** is defined as having automated three of these processes.
- **End-to-end automation** is defined as having automated at least three of these processes.

While most AP departments are closer to the beginning of their automation journey than the end, it's imperative that they keep moving towards end-to-end automation. End-to-end automation lays a solid foundation for AP departments to achieve consistent processes across the invoice-to-pay cycle. And that's critical when it comes to becoming a top performing AP department. An AP department will never achieve optimum performance by digitizing inconsistent or broken processes.

> Paper-based invoice processing prevents AP departments from being able to effectively manage their workload.

To become a top-performer, AP departments must first fix their processes to achieve consistency.

Organizations that optimize their processes before investing in automation achieve better results, particularly when it comes to the average cost to process an invoice and AP staff productivity.

Departments with inconsistent processes are likely to rely on desk-level decision-making where processors set their own priorities and methods. Accounts payable departments that rely on desk-level decision-making – even those with automation – are among the worst performers in their peer group.

Departments with a mix of consistent and inconsistent processes have department-level decision-making where processors largely adhere to department priorities and methods, but management doesn't enforce things. It's only when decisions are elevated to the department level that AP teams begin to achieve significant improvements in operational efficiency and effectiveness.

1 CFO Dive, *Pandemic Exposes Need to Automate Finance Function Amid Limited Resources*
2 IOFM, *World-Class AP Performance: Effectiveness Benchmarking Metrics*

But department-level decision-making isn't enough for top performance. Accounts payable departments must have consistent decision-making across all processes, so AP teams can operate in a continuous process improvement loop. IOFM calls this peak level of process maturity P2P decision-making.

Less than 20 percent of all AP departments have hit their stride when it comes to process maturity[3]. Sixty-two percent of AP departments have not completed a single foundational process step[4].

Now, you are probably wondering how your department can join the ranks of top performers.

How to improve your process consistency

The idea of becoming a top performer with consistent processes can be daunting, particularly for AP departments that are only beginning their automation and process improvement journey.

Here is IOFM's step-by-step plan for moving your department towards process consistency.

- **Get strategic alignment.** Achieving process consistency starts with assessing where you stand and defining goals. These goals will be the basis for a mission and vision statement to guide your AP team. Try to align your department's goals with those of procurement and finance to ensure that you are supporting and not undermining one another. Look for areas of overlap. Next, consider whether the organization is investing adequate resources to support the goals that your AP department has defined. And create actionable steps for achieving your department's goals as well as the strategic objectives of the enterprise.
- **Put a governance team in place**. Every process needs someone empowered to make and enforce changes. Start by defining the capabilities and skills required of a process owner. Selecting the right process owner will be easier when you have those capabilities and skills in mind. Task the process owner with creating, modifying, and enforcing process changes and keeping lines of communication open with frontline staff. Next, assign people to do the work for each step. And identify people who should be consulted and informed of any changes. Keeping the broader team informed can make meetings more efficient and streamline the implementation and adoption of process changes. A governance team is invaluable in helping a process owner prioritize changes and execute continuous improvements.
- **Visualize your processes.** Achieving top performance requires AP departments to uncover all the processes that may be slowing it down. Scope your AP processes from beginning to end, starting at the point of purchase and concluding with reconciliation. Give each process a name. Sort processes in the order they typically occur. Build a chart depicting all the roles involved in each AP step, identifying who is responsible, who is accountable, and who must be consulted or informed. Detail all the inputs and outputs for each step in the process. Finally, use all the information that you have collected to create a spreadsheet detailing everything necessary to execute each step that is crucial to your AP process.
- **Manage change**. Change starts with translating your goals into actionable steps. Then you must communicate the changes with your team to ensure that no one is caught by surprise. As you implement the changes, be sure to capture any best practices or lessons learned that emerge and share them with your entire team to celebrate and replicate the good outcomes. Also identify and prioritize any training your team needs to succeed as processes change.
- **Apply what you've learned.** Top performers operate in a continuous process improvement loop. This starts with aligning your process improvement goals with leadership's definition of success. Quantify performance targets and goals and identify and define process measures. Then, collect data to measure your progress. Compare your results to those of your peers. Plan how you will address results that fall short of world-class performance. Finally, continuously improve your processes based on the data that you learn.

These strategies provide a solid foundation for improving your AP department's performance.

3 IOFM, *World-Class AP Performance: Effectiveness Benchmarking Metrics*
4 IOFM, Maximizing your Automation ROI

On your way towards top performance

An organization cannot improve what it cannot measure, the old saying goes.

And you might be wondering how to measure your progress in becoming a top performer.

IOFM benchmark data has uncovered several metrics that are critical to top AP performance.

Cost to process an invoice

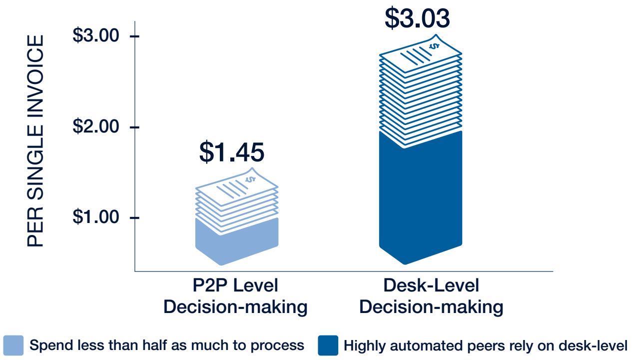
AP has long been perceived as a cost center and a drain on company resources.

There's no question that processing invoices can be extremely expensive without the right technology or the right level of automation. So, how much should it cost to process an invoice?

To ensure an apples-to-apples comparison, IOFM calculates the average cost to process an invoice by dividing the combined salaries of a department's entire team (including directors, managers, frontline workers and mailroom clerks) by the total number of invoices the department processes in a year.

However, determining the full impact of automation and process improvements on a department's average cost to process an invoice requires a department to consider all labor costs – including benefits and the cost of temporary staff – and allocations for things like office space and utilities.

AP Departments that have Deployed End-to-End Automation



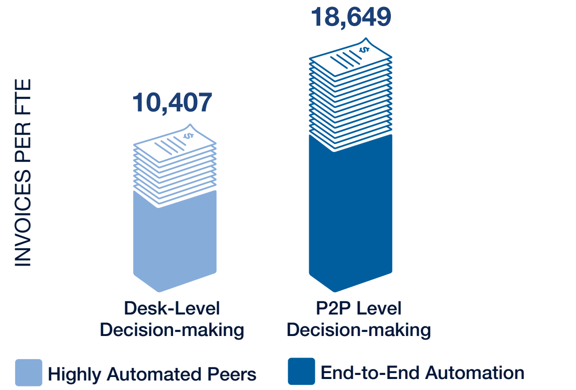
Accounts payable departments that have deployed end-to-end automation and have achieved P2P level decision-making, spend less than half as much to process a single invoice as their highly automated peers that rely on desk-level decision-making ($1.45 per invoice versus $3.03 per invoice, respectively)[5].

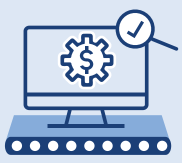
Number of invoices per FTE

Labor plays an outsized role in an AP department's invoice processing costs.

By combining end-to-end automation with P2P level decision-making, AP departments can significantly increase the average number of invoices a full-time equivalent (FTE) can process each year, in turn, reducing the department's invoice processing costs. Accounts payable departments with end-to-end automation and P2P level decision-making process an average of 18,649 invoices per FTE, while their highly automated peers that use desk-level decision-making process 10,407 invoices per FTE[6].

Effect of Decision-making on Invoices per FTE





Automated AP solutions verify invoice data, enforce business and audit policies, and enable a fully electronic processing environment where no manual data entry is required.

Percentage of invoices paid on time

Conversations about AP metrics invariably turn to how long it should take to process an invoice.

5 IOFM, *World Class AP Performance: Efficiency Benchmarking Metrics*
6 IOFM, *World Class AP Performance: Efficiency Benchmarking Metrics*

Processing invoices in a timely manner helps AP departments avoid late payment penalties, capture more early payment discount offers, head off calls and e-mails from suppliers about the status of their payment, forecast cashflow more accurately, and reduce the possibility of supply chain disruption.

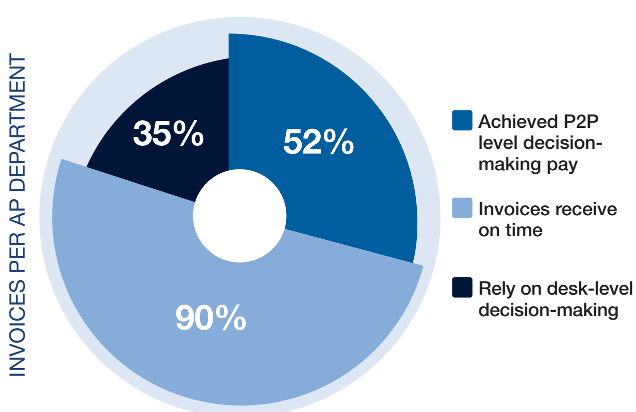
But paying invoices "fast" may not be the best approach for AP departments. Some businesses may want to pay their suppliers close to the invoice due date to preserve cash on their balance sheet.

A better question for efficiency-minded AP departments is what percentage of their invoices are paid on time. On-time, rather than fast, payments help buyers maintain strong relationships with their suppliers while optimizing their working capital (e.g., their company's Day's Payable Outstanding).

Top-performing AP departments pay 90 percent or more of their invoices on time[7].

Process maturity is critical paying invoices on time. Fifty-two percent of AP departments that have achieved P2P level decision-making pay at least 90 percent of the invoices they receive on time while only 35 percent of departments that rely on desk-level decision-making make the cut[8].

Process Maturity is Critical to Paying Invoices on Time



AP automation solutions support an unlimited number of approvers, non-ERP user approvals, web-based access for connection anytime, and business continuity safeguards.

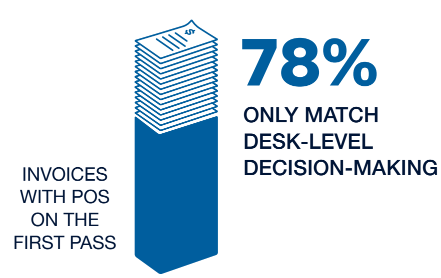
PO first-pass match rates

Imagine if the invoices your department receives were posted directly to your accounting software or ERP without the need for human operator intervention. Two-way and three-way matching of invoices with POs and proof-of-delivery documents makes this dream a reality for AP departments.

When the data extracted from invoices matches the PO information residing in an AP department's accounting software or an ERP, there's no need for AP staff to manually handle those invoices.

Accounts payable departments that have deployed end-to-end automation and have achieved P2P decision-making match an eye-popping 88 percent of supplier invoices with POs on the first pass[9]. Conversely, AP departments that have automated their processes end-to-end, but still rely on desk-level decision-making, only match 78 percent of invoices with POs on the first pass[10]. By reducing the number of invoices that they must handle, the AP professionals in these departments have more time to focus on higher-value activities such as analyzing data and collaborating with stakeholders and suppliers.

AP Departments that have Automated End-to-End Processing



7 IOFM, *World-Class AP Performance: Efficiency Benchmarking Metrics*
8 IOFM, *World-Class AP Performance: Efficiency Benchmarking Metrics*
9 IOFM, *World-Class AP Performance: Effectiveness Benchmarking Metrics*
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Automated AP solutions include built-in Key Performance Indicators (KPIs) and dashboards that provide real-time visibility and other analytical tools.

Share of transactions requiring corrections

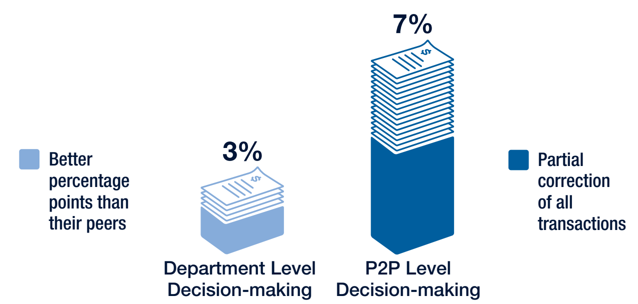
Few things chip away at profits like back-office errors.

Duplicate and incorrect payments can waste staff time, delay shipments, strain relationships with suppliers, and cost a business money in lost funds, write-offs, and bank fees to reissue payments.

It is not uncommon for AP staff to become trapped in days or weeks of back-and-forth e-mails and telephone calls between internal stakeholders and suppliers trying to get to the bottom of things.

Reducing the number of transactions that require correction is one of the best ways to ensure that your department keeps operating efficiently and effectively. After all, it makes no sense to process invoices fast, but incorrectly. AP departments with end-to-end automation and P2P level decision-making must only correct 7 percent of all transactions – three percentage points better than their peers with end-to-end automation that still rely on department-level decision-making[11].

AP Departments with End-to-End Automation and P2P Level Decision-Making



The artificial intelligence (AI) engine in some automated solutions can manage and analyze both structured and semi-structured invoice data by matching it against ERP master data.

These are the metrics that will have the biggest impact on your ability to become a top performer.

Take the next step towards top performance

Now is the time to rethink the way your AP department operates and its underlying cost structure.

Accounts payable departments with paper-based processes are limited in their ability to not only minimize per-invoice costs, but also to improve productivity, prevent duplicate invoices and take advantage of early-payment discounts. Financial planning, supplier relationships, employee productivity and even regulatory compliance efforts may suffer from inefficient and ineffective invoice-to-pay processes.

64% Sixty-four percent of organizations have made AI and machine learning a bigger priority[12].

Broken and incorrect processes may be holding your department back, no matter your level of automation. Combining end-to-end automation with consistent processes helps AP departments achieve top performance for costs, staff productivity, invoice approval cycle times and accuracy.

End-to-end automation and consistent processes eliminate inefficiency. Because every phase of processing is made electronic, the need for any human data entry, fixing typos and other errors, and manual storage and filing is eliminated. Businesses save time and money with invoice receipt and

11 IOFM, *World-Class AP Performance: Effectiveness Benchmarking Metrics*

12 Algorithmia, *2020 Enterprise Trends in Machine Learning*

data capture, as well as benefit from company complaint and standardized approval workflow.

The strategies in this white paper will start your department on its way to top performance.

About Esker

Esker is a global cloud platform built to unlock strategic value for finance and customer service professionals, and strengthen collaboration between companies by automating the cash conversion cycle. Esker's solutions incorporate Artificial Intelligence (AI) technology to drive increased productivity, enhanced visibility, reduced fraud risk, and improved collaboration with customers, suppliers and internally. Esker operates in North America, Latin America, Europe and Asia Pacific with global headquarters in Lyon, France, and US headquarters in Madison, Wisconsin. In 2020, Esker generated 112 million euros in total sales revenue.

For more information, visit esker.com

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Our enduring commitment to serving the accounting and finance professions is unmatched. IOFM has certified over 25,000 accounting and finance professionals and serves several thousand conference and webinar attendees each year.

IOFM is proud to be recognized as the leading organization in 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 finance and administration (F&A) teams.

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