Benchmarks: The State of Accounts Payable 2013

May 2013

The goal of accounts payable departments today is to progress towards a day when their staffs focus less on clerical data entry work and more on analytical, strategic tasks. With modern technology giving accounts payable the power to become a value-adding function in the organization, as opposed to merely a cost center, how close are AP departments to meeting this goal?

While just a small percentage of organizations believe they are at this level, many are making great strides. In fact, a third of organizations report that their accounts payable teams focus more on problem solving than on clerical tasks. However, just 3 percent say their departments help perform strategic activities like spend analysis.

Transforming AP from a clerical process into an analytical one requires a lot of steps. Where do AP organizations stand today in terms of implemented technologies? Have departments rolled out best practices, such as mandating invoices come directly to AP? Most importantly, what are AP managers' top concerns right now?

TAPN's latest survey results on the State of Accounts Payable provide a snapshot of where organizations are today, highlighting the progress they have made and the work that still must be done. In addition, the results reveal how executive management, internal customers, and AP itself view accounts payable's contributions to the organization.

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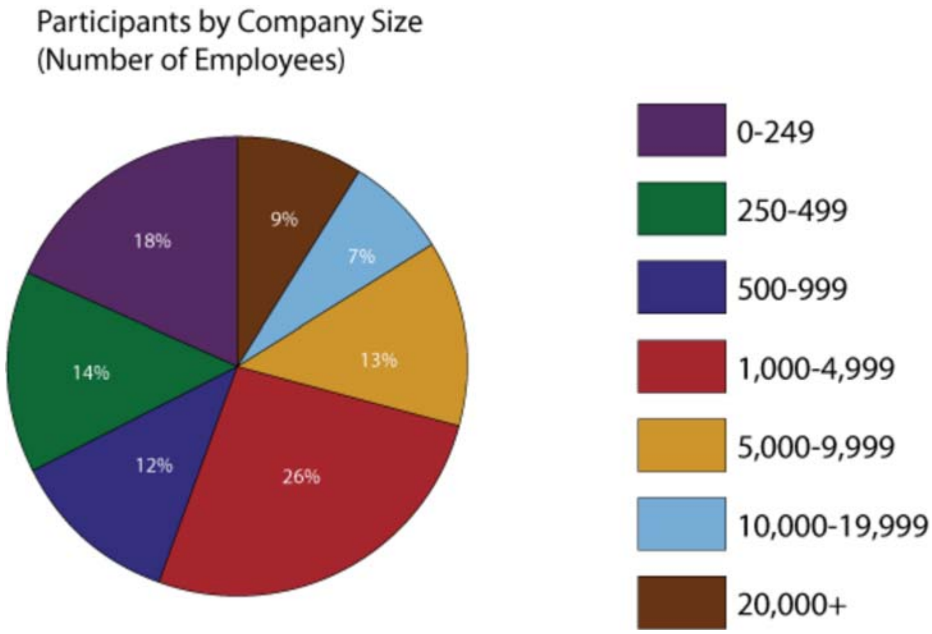
Study Participants

The Accounts Payable Network surveyed 420 organizations of all sizes and industries. Following is the participant profile by organization size and industry by NAICS code.



Industries Represented (NAICS classification)

Industry	Percent of Participants
Construction	4%
Educational Services	7%
Finance and Insurance	10%
Health Care and Social Assistance	13%
Information/Media /Publishing	4%
Manufacturing	19%
Mining	3%
Professional, Scientific and Technical Services	5%
Public Administration (Government)	10%
Retail Trade	5%
Transportation and Warehousing	4%
Utilities	4%
Wholesale Trade	3%

Other	8%
Do Not Disclose	2%

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Summary Study Observations

The State of AP

- Just 3 percent of organizations report they have reached AP operating level 3, defined as focusing primarily on analytical and strategic tasks.
- Seventy-one percent are either in level 1 (primarily clerical activities) or between levels 1 and 2 (performing primarily problem-solving and exception-handling tasks).
- Meanwhile, 27 percent of participants are either operating in level 2 or between levels 2 and 3.
- Seventy-two percent of organizations have centralized accounts payable, with 30 percent organized into shared services centers.
- Accounts payable organizations are twice as likely to be part of a shared services center today than five years ago.
- In most organizations (91 percent), the accounts payable function is part of the finance and accounting group. Procurement has control of accounts payable in 5 percent of organizations.
- At least some collaboration exists between AP and purchasing in 87 percent of organizations. Forty-six percent of participants say the two departments are well coordinated.
- Eighty-one percent of participants believe their internal customers are aware of AP's contribution to the organization, although most think internal customers are only "somewhat aware."
- Participants are more likely to believe executive management is aware of AP's contribution, with one-fourth describing executive managers as "very aware."
- Just under half of organizations report that their AP staff is "very aware" of their own contributions.
- Fifty-six percent of participants say that getting access to capital expense dollars for process improvements is either very difficult or impossible.
- More than two-thirds of organizations do invest in training for their AP staffs. The most popular training method is staff cross training.

AP Top Concerns

- The top concern in accounts payable departments today is improving and reducing errors.
- Five years ago, the top concern was making on-time payments.
- Performing spend analysis - a key activity of level 3 AP departments - is the top concern for only 2 percent of departments.
- Organizations are less concerned today with reducing costs than they were five years ago.

Staff Education and Proficiency

- AP staff members today are more likely to be college-educated than five years ago. Sixty-three percent have at least an associate's degree today, compared to 43 percent five years ago.
- The median organization reports that their average staff member has 10 years of AP experience.
- Eighty percent of organizations say that staff proficiency in AP has increased during the last five years.
- In terms of AP certification, 12 percent of organizations hold departmental certification, while 41 percent of organizations invest in certification for their staff members. The median organization has 1 certified individual on staff.

Disbursement Metrics

- The median organization processes 43,000 invoices per year, while the median department has 6 FTEs on staff.

- Fifty-five percent of the median AP department's invoices are against purchase orders, while POs reflect 70 percent of the median organization's total dollar spend.
- The median organization receives 70 percent of their invoices directly in AP from the supplier.
- Once invoices arrive in AP, it takes the median organization 10 days to get it ready for payment. First quartile organizations have invoices ready to pay in just five days.
- Most organizations have not achieved straight-through invoice processing (invoices arrive, match, and are approved for payment with no human intervention).
- Paper remains the most common invoice receipt method, representing 70 percent of the median organization's total invoice volume.
- PDF invoices are the second most common, accounting for 20 percent of the median participant's invoice volume. EDI and electronic invoices still have only minor penetration.
- 30-day payment terms are the most common across all company sizes and industries.
- Late payments are not a serious problem for a large percentage of AP departments. The median department reports that 90 percent of their invoices are paid on time.
- Only a quarter of participants track days payable outstanding. Of those that do, the median organization reports a DPO of 21 days.
- Even though discounts can reap big savings, few suppliers actually offer them. Just 5 percent of the median department's suppliers offer early-payment discounts.
- When suppliers do offer discounts, many AP departments struggle to capture them. The median organization reports that it captures just 5 percent of available discounts, though third quartile departments capture 86 percent.
- AP departments tend to have the last word when it comes to payment timing, with 74 percent reporting that they manage this function. Ten percent of participants report that the corporate controller controls payment timing.
- While the trend over the past five years has been to pay invoices faster (54 percent), larger companies are the most likely to say they have extended payment terms during the last five years.
- Checks remain the most common payment method, representing a majority of total dollars spent and invoices paid.
- The median cost to process an invoice is $5.

Use of Technology

- Sixty percent of organizations describe themselves as having high or medium automation. Just 5 percent report having no automation.
- The most commonly-implemented technologies are p-cards and automated workflow. Vendor self-service web portals and web-based Electronic Data Interchange are the least commonly-implemented technologies.
- Most departments prefer to implement their accounts payable technologies as on-premises software. Travel & entertainment expense reporting software is the most likely to be implemented via the cloud.
- The median participant's vendor master file contains 5,000 vendors (third quartile companies have 15,000). Meanwhile, nearly a quarter of organizations never clean their master files.

Tax and Regulatory Compliance

- AP departments are confident in their understanding of 1099-MISC payment reporting and withholding requirements, with 81 percent describing themselves as fully compliant.
- Fifteen percent fewer companies describe themselves as fully compliant with state 1099 reporting and withholding requirements than federal requirements.
- Eighty-two percent of organizations are at least partially compliant with state sales and use tax laws.
- Organizations are the most likely to not comply with laws requiring they check their disbursements against blocked parties lists.

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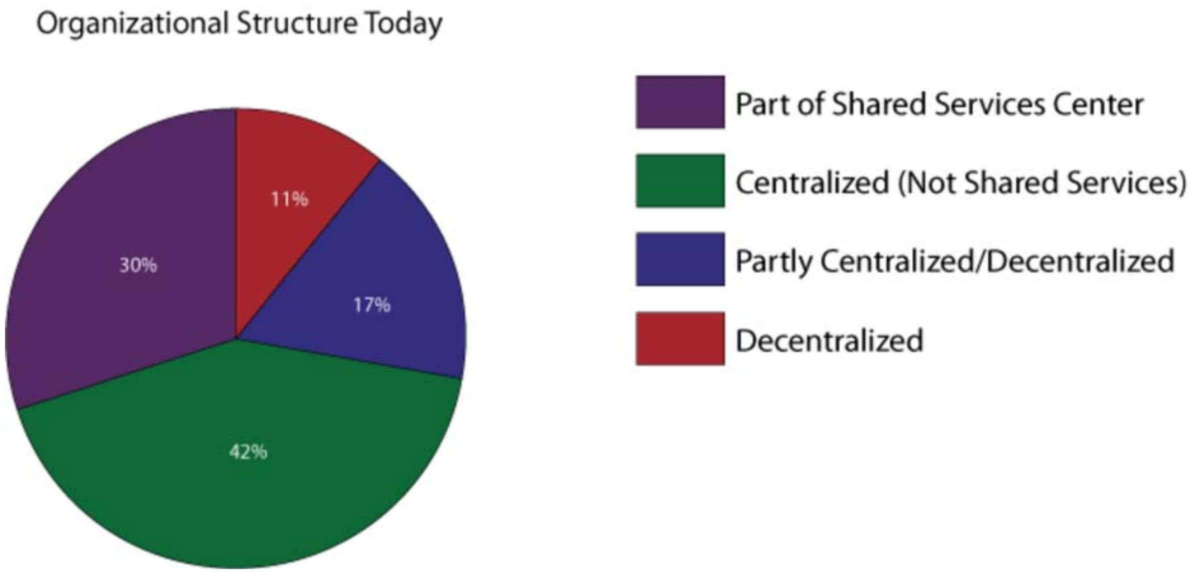
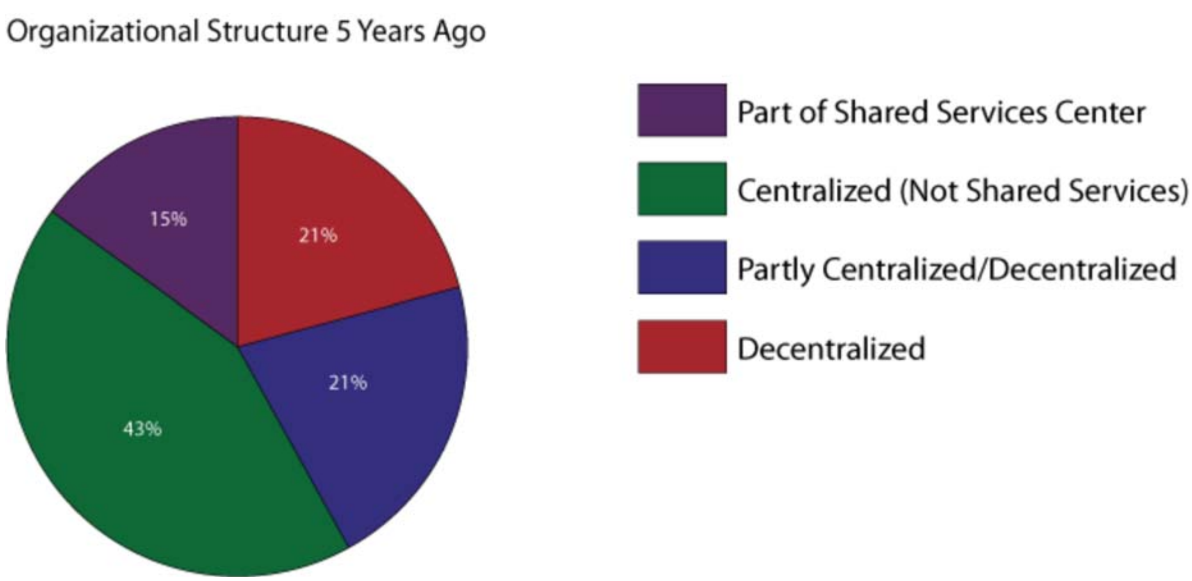
Survey Results

Organization of Accounts Payable

Centralization of AP

In order for accounts payable departments to transition into more strategic roles, centralization is a necessary precondition. During the past five years, the percentage of accounts payable departments organized as part of a shared services center has doubled. Similarly, the percentage of decentralized AP departments has been nearly halved.





A clear dividing line exists between large organizations and small and medium sized ones in terms of AP being part of a shared services center. Larger organizations are more likely to have complex processes that could benefit from the standardization that shared services can bring. In addition, they have more financial resources to undergo a large-scale centralization project.

Percent of Organizations in Shared Services (By Company Size)

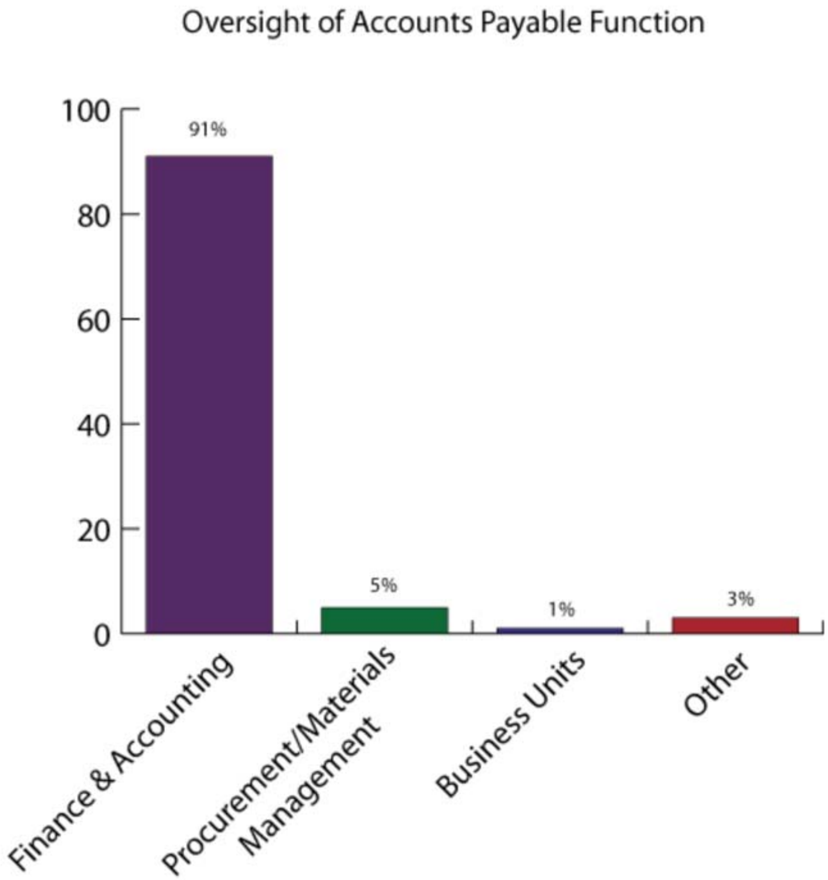
	1-249	250-499	500-999	1,000-4,999	5,000-9,999	10,000-19,999	20,000+
Percent in Shared Services	22%	19%	22%	29%	40%	45%	46%

Number of FTEs in AP

All Industries	Number of FTEs
1st Quartile	3
Median	6
3rd Quartile	14
Average	22

Oversight of Accounts Payable

In most organizations, accounts payable reports up through finance and accounting. While the procurement function is AP's natural ally in the procure-to-pay process, just 5 percent of accounts payable departments report to procurement.

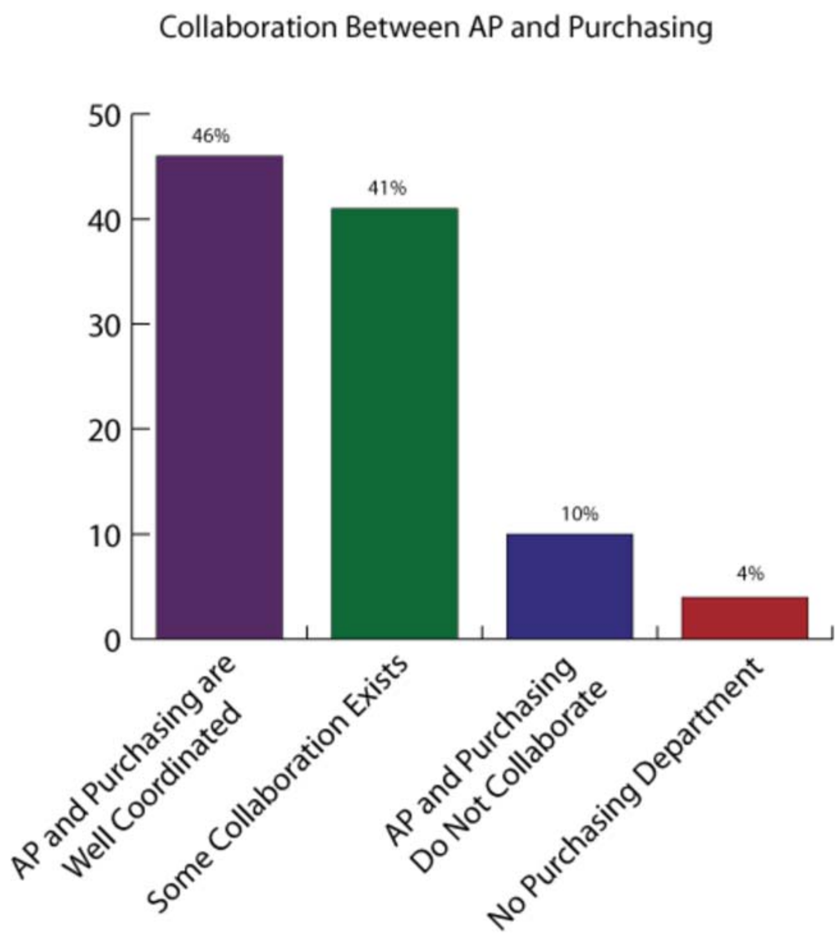


However, larger organizations are more likely than smaller ones to put AP under procurement. AP reports to procurement in just 1 percent of organizations with fewer than 250 employees. Meanwhile, 21 percent of organizations with more than 20,000 employees have AP report to procurement.

Collaboration with Purchasing

Even if AP departments rarely report to procurement, the two departments should work together. Bringing AP and procurement together improves contract compliance and drives spend analysis.

Fortunately, 87 percent of organizations report at least some collaboration between AP and purchasing/procurement. Just 10 percent report no collaboration whatsoever.



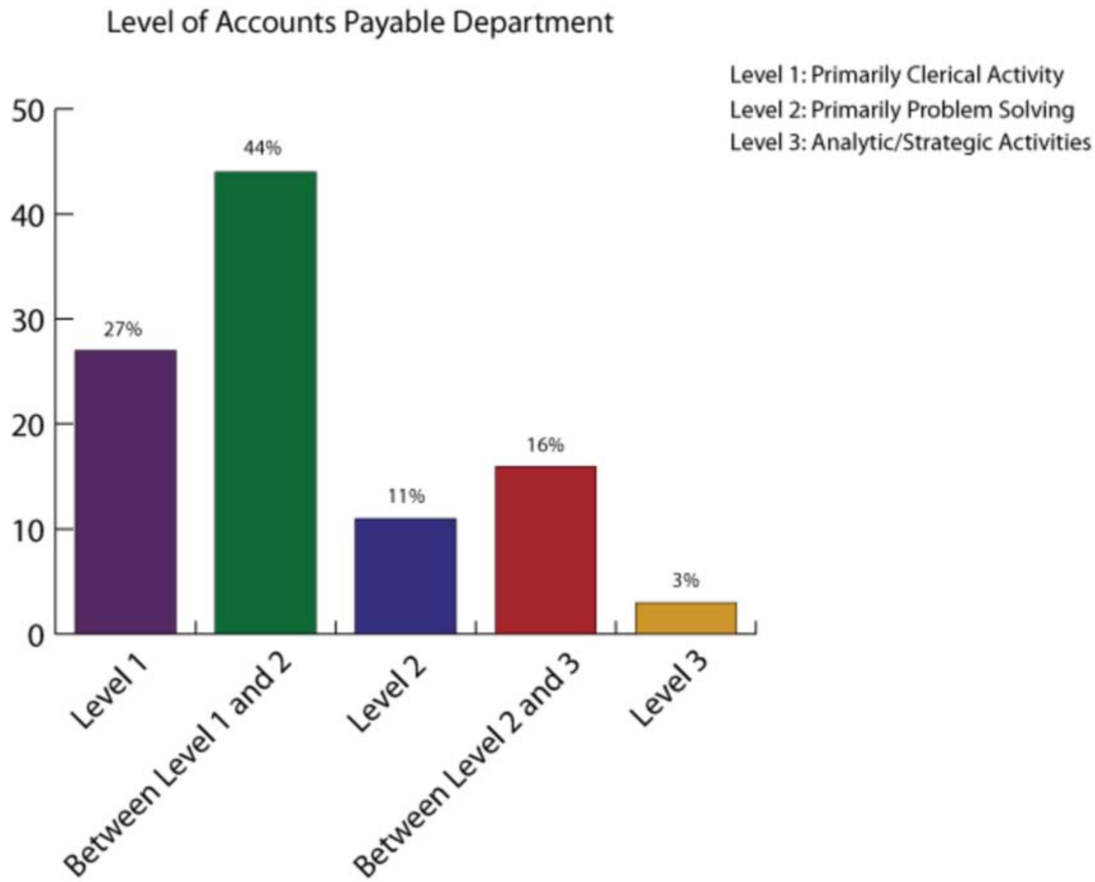
Assessment, Top Concerns, Awareness of AP Value

Level Assessment

The Accounts Payable Network defined three operational levels, then asked participants to assess where their operation fell in relation to these levels. The three levels are:

1. Level 1: Primarily clerical activity, i.e. manual data entry of paper invoices, manual workflow, etc.
2. Level 2: Primarily problem solving (e.g. exception handling, credits management, etc.) made possible by the elimination of a significant percentage of paper and implementation of process automation.
3. Level 3: Focused on analytic and strategic activities, e.g. spend analysis, discount capture, and cash management.

Most departments described themselves as either level 1 or between levels 1 and 2.

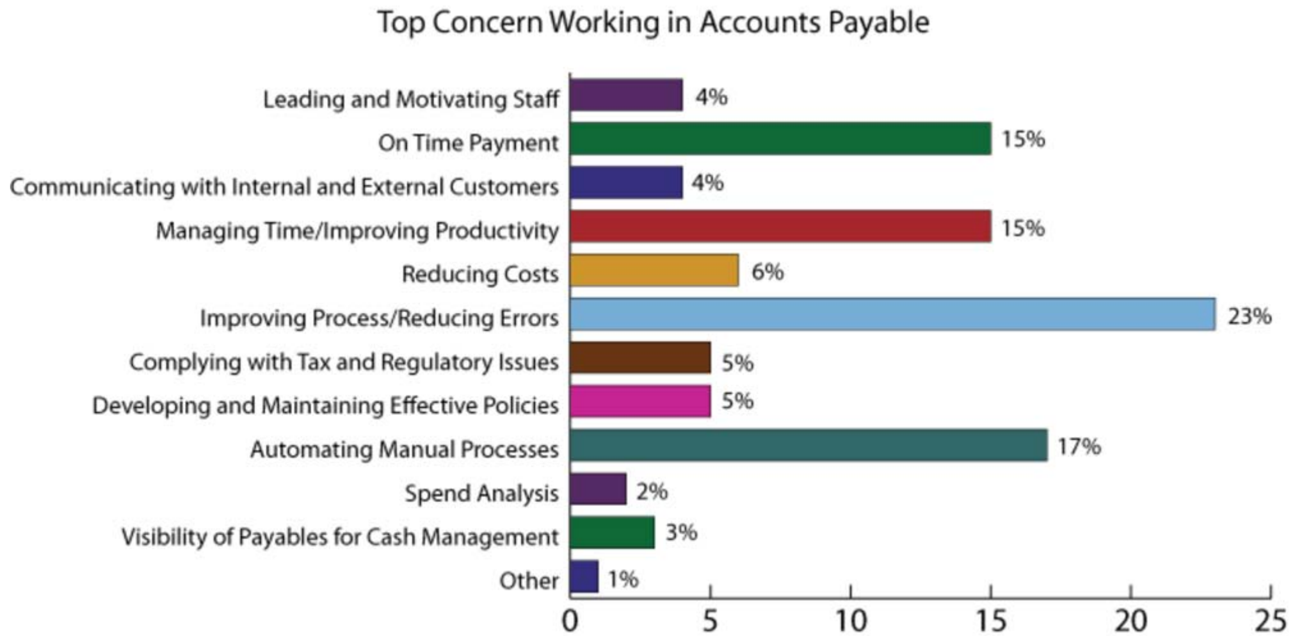


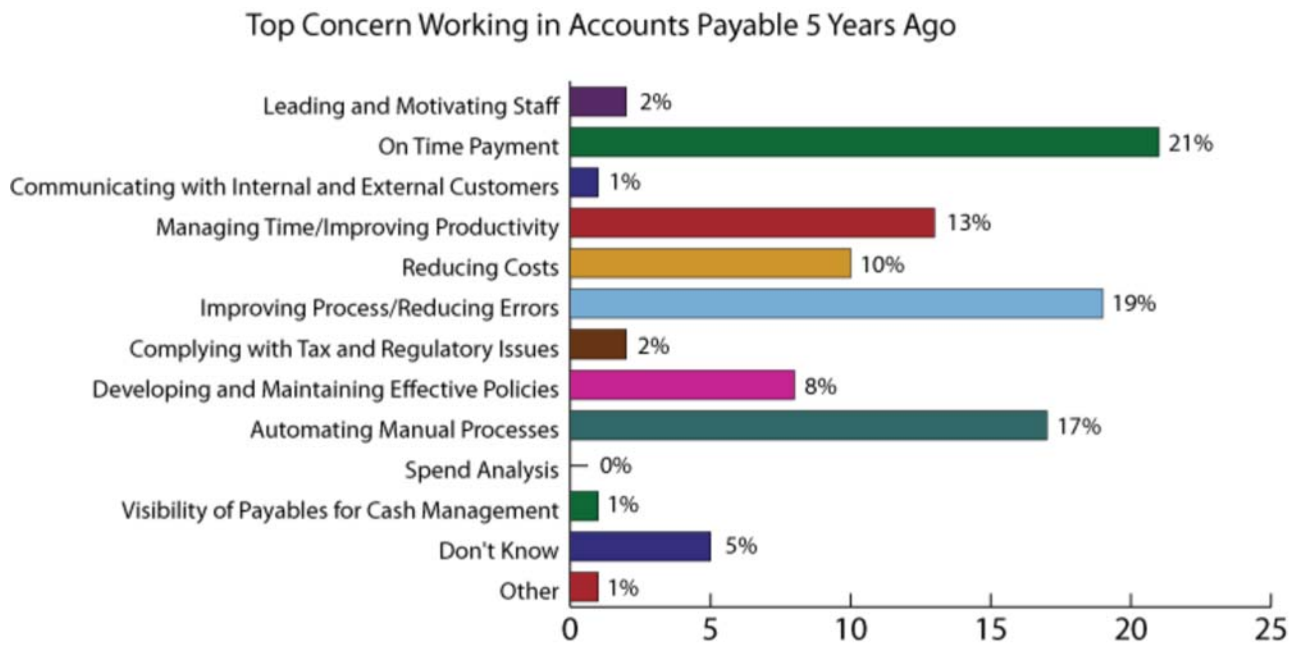
There is some minor correlation between company size and how the organization described themselves. Forty-four percent of companies with 20,000+ employees described themselves as level 2 or above, while only 21 percent of companies with less than 250 employees did so.

Top Concerns

A lot of things can change in five years. Survey participants identified their top concerns working in accounts payable today and their top concerns five years ago. While the top concern five years ago was making on-time payments, today departments are more concerned with improving processes and reducing errors.

Three notable concerns that have decreased in importance during the last five years are reducing costs, developing and maintaining effective policies, and making on-time payments. Organizations may have become better at addressing these concerns, or the drive to improve processes has become more imperative.

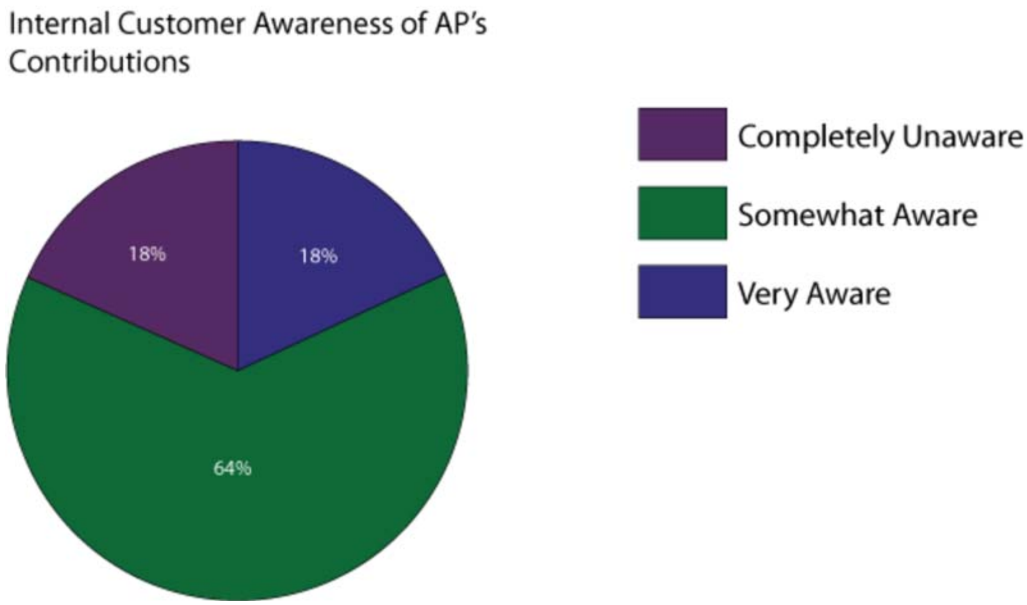


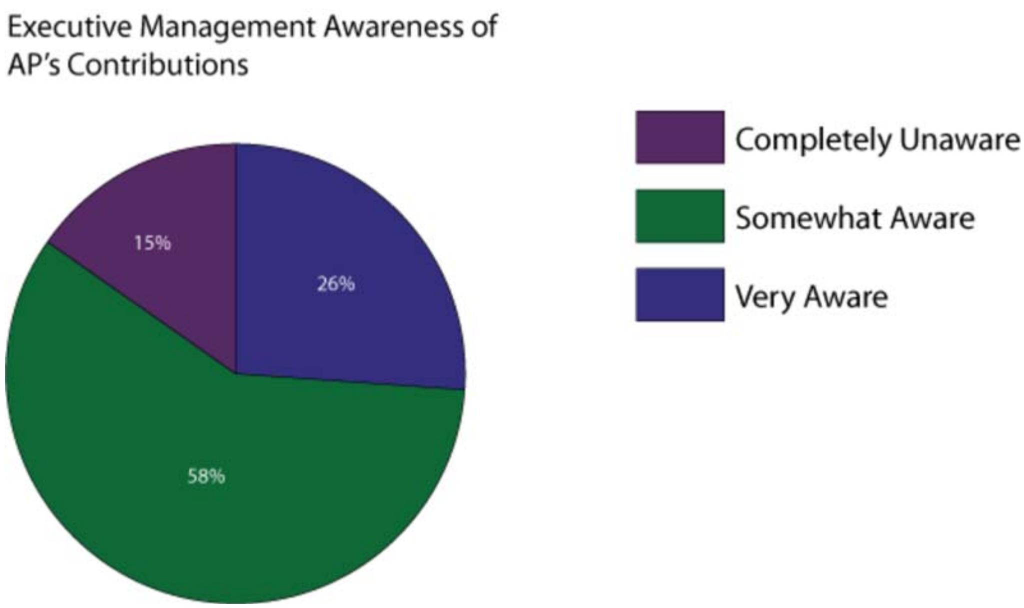


AP Value Awareness

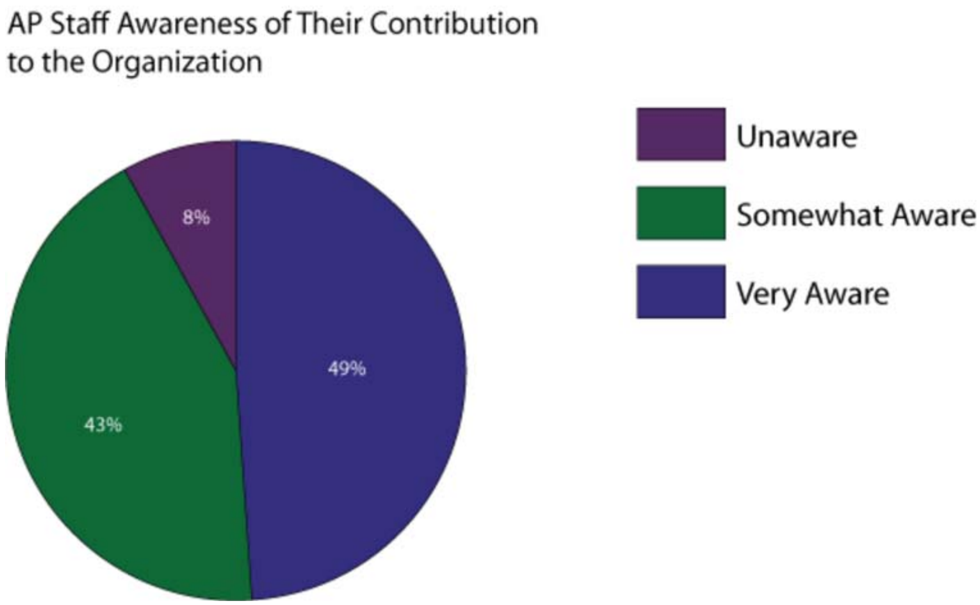
Accounts payable best practice consultants frequently remind AP managers of the importance of public relations. Managers need to tell their story so that internal customers and executive management understand AP's contributions to the organization. How successful are they?

Eighty-one percent of participants say their internal customers are at least somewhat aware of AP's contributions, while 84 percent say their executive managers are aware. Interestingly, smaller companies are more likely than larger ones to report that internal customers and executive managers are very aware. This could be a result of smaller organizations working more closely to these individuals.



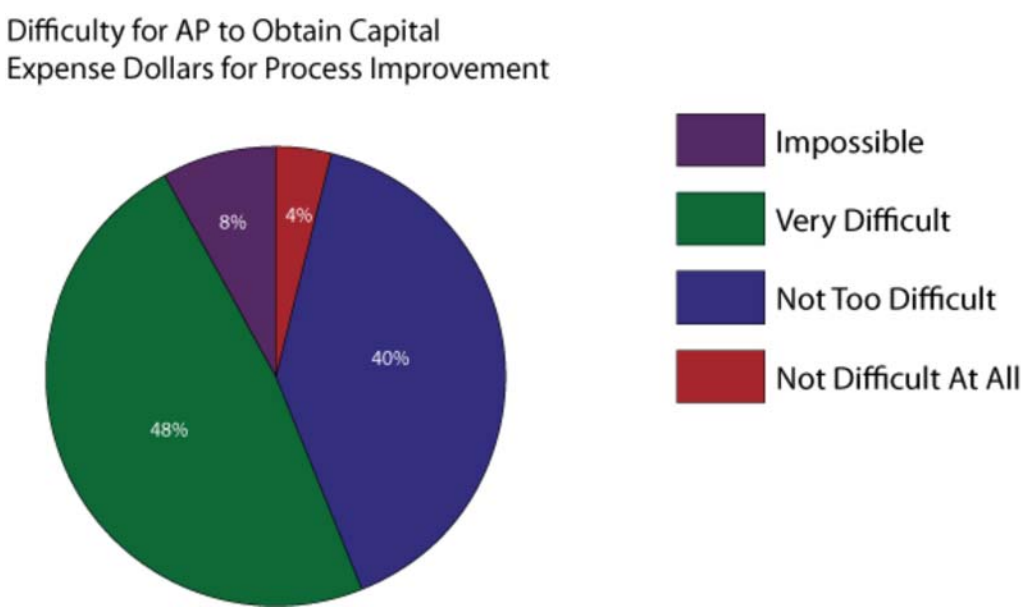


Equally as important as spreading AP's message to customers and managers is making sure the AP staff itself understands their own contributions. Not even half of organizations report their AP staff is very aware of AP's contributions to the organization.



Access to Capital Expense Dollars

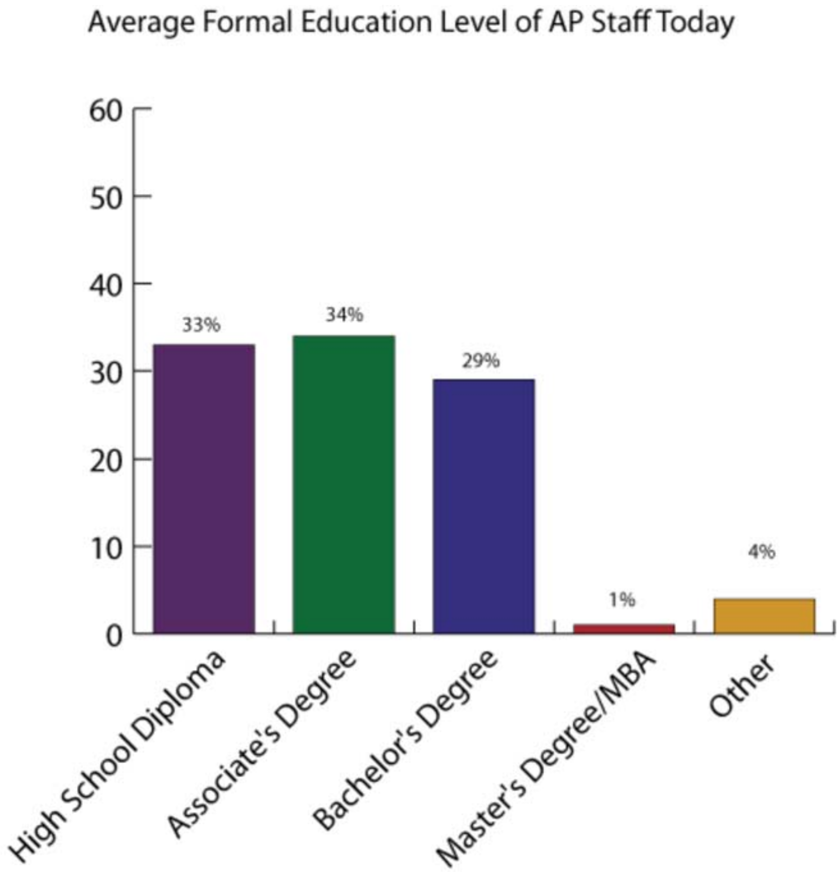
One of the end goals of spreading AP awareness is to help ensure AP has access to capital expense dollars to make process improvements. If management understands how AP affects the bottom line, then they may be more likely to invest in AP improvements. However, 56 percent of organizations describe getting access to capital expense dollars as very difficult or impossible.

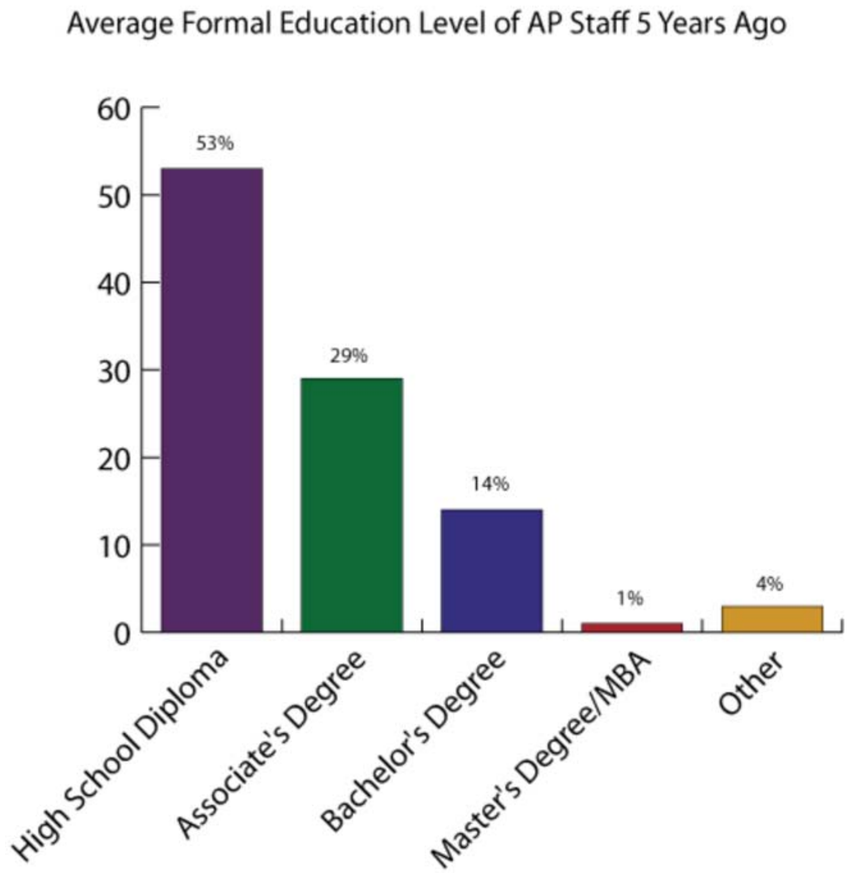


Staff Education, Proficiency, and Training

AP Staff Education

Today's accounts payable professional has more formal educaton than his or her counterpart five years ago. While a majority of AP staff had just a high school diploma five years ago, today most have a college degree. The increased average education level places additional expectations on the AP staff to provide value-adding services to the organization.





Years of Experience

The average number of years of accounts payable experience in AP departments has remained virtually unchanged during the past five years.

AP Staff Experience

All Participants	Number of Years
First Quartile	5
Median	10
Third Quartile	15
Average	12

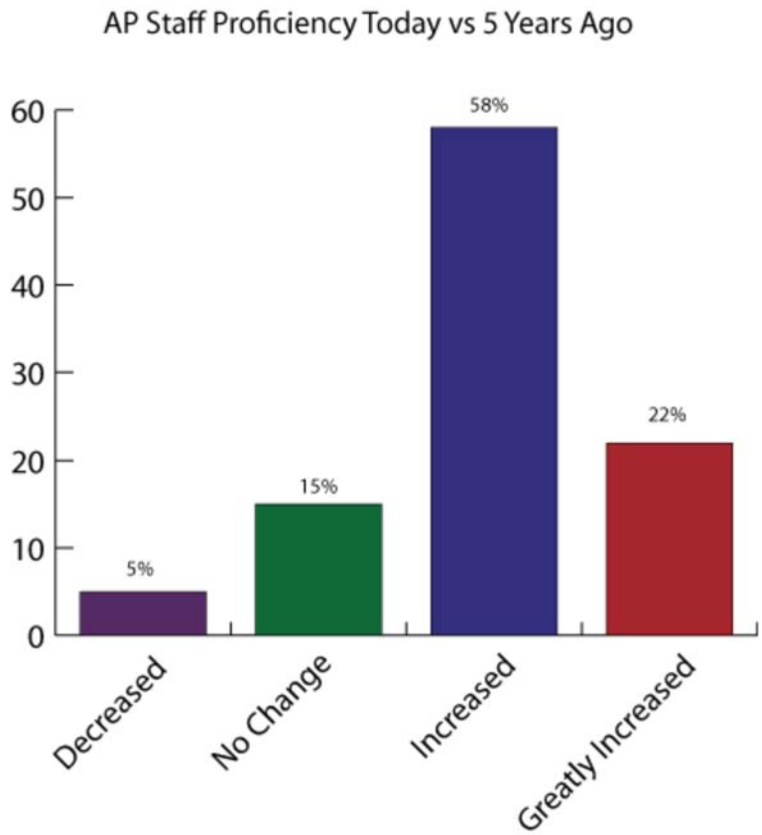
AP Staff Experience 5 Years Ago

All Participants	Number of Years
First Quartile	5
Median	10
Third Quartile	15

Average	11

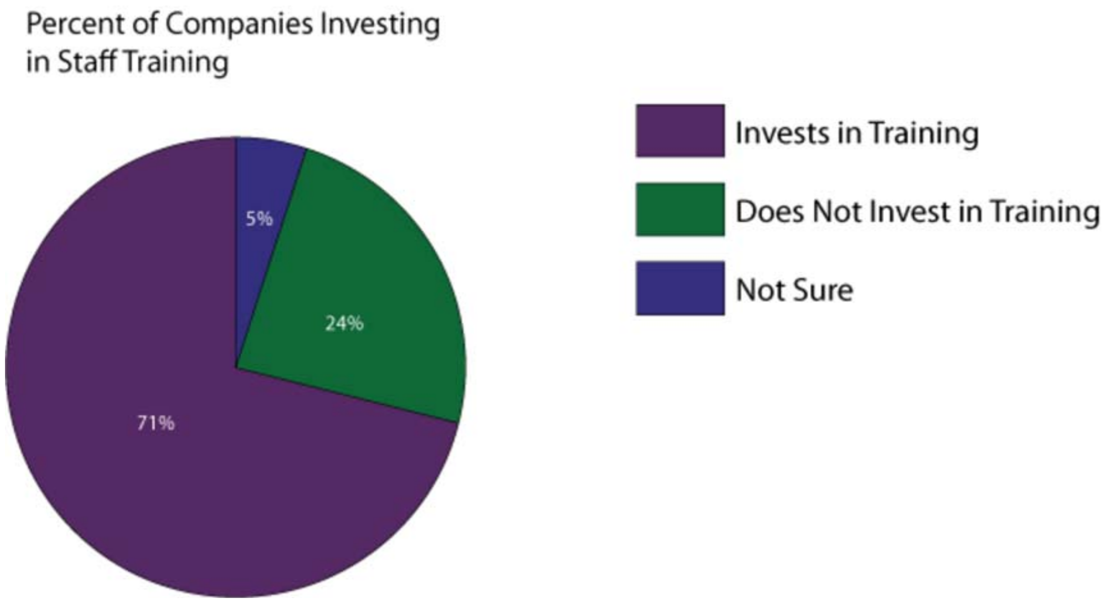
Staff Proficiency

While the average education level of the AP staff has increased during the past five years, so to has the staff's proficiency.



Training

More than two-thirds of participants invest in some kind of training for their staff. The most common forms of training include staff cross training, online training courses, and obtaining accounts payable certification.



Disbursement Metrics

Invoice Volume

The median reported invoice volume is 43,000 per year, although that figure can vary widely. While organizations with fewer than 250 employees processes an average of 33,000 invoices per year, organizations with more than 20,000 employees process an average of 1.2 million.

Invoices Processed per Year

All Participants	Number of Invoices

1st Quartile	15,00
Median	43,000
3rd Quartile	140,000
Average	239,138

Invoices can arrive in a variety of methods, including paper via mail, PDF via email, electronic data interchange, and other electronic formats. Most invoices still arrive on paper, although larger companies have significantly reduced paper volumes. The median organization with 20,000+ employees receives just 25 percent of their invoices on paper, compared to 80 percent for organizations with less than 250 employees.

PDF invoices are the second most common format; there is no significant difference in PDF invoice volume among organizations of different sizes.

Most organizations are not receiving a large percentage of invoices electronically - whether EDI or other electronic formats. Very large organizations are the most likely to have EDI and other electronic invoices.

The following tables provide a breakdown of the different invoice receipt methods:

Percent Invoices Received on Paper via Mail

All Participants	**Percentage**
Upper Quartile	30%
Median	70%
Lower Quartile	90%
Average	61%

Percent Invoices Received as PDF via Email (efax)

All Participants	**Percentage**
First Quartile	5%
Median	20%
Third Quartile	40%
Average	26%

Percent Invoices Received via Traditional EDI

All Participants	**Percentage**
Lower Quartile	0%

Median	0%
Upper Quartile	5%
Average	7%

Percent Invoices Received as Electronic Data (Not EDI)

All Participants	Percentage
Lower Quartile	0%
Median	0%
Upper Quartile	5%
Average	8%

Purchase Order Invoices

Requiring invoices be tied to a purchase order is a proven practice for faster processing and ensuring compliance with company purchasing policies. The median organization ties a majority of their invoices to a purchase order, which accounts for more than two-thirds of their total dollar spend. Larger companies are nearly twice as likely as small ones to use POs.

Percent of Invoices Against a PO

All Participants	Percentage
Lower Quartile	24%
Median	55%
Upper Quartile	80%
Average	61%

Percent of Dollar Spend Against a PO

All Participants	Percentage
Lower Quartile	30%
Median	70%
Upper Quartile	85%
Average	58%

Payment Timing

The longer it takes for an invoice to reach accounts payable, the longer it takes to pay it. For this reason, best practice is to require that vendors send invoices directly to AP, not to the requestor. Most organizations follow this practice for the bulk of their invoices.

Percent Invoices Coming Directly to AP from the Supplier

All Participants	Percentage
Lower Quartile	10%
Median	70%
Upper Quartile	90%
Average	56%

Payment Terms

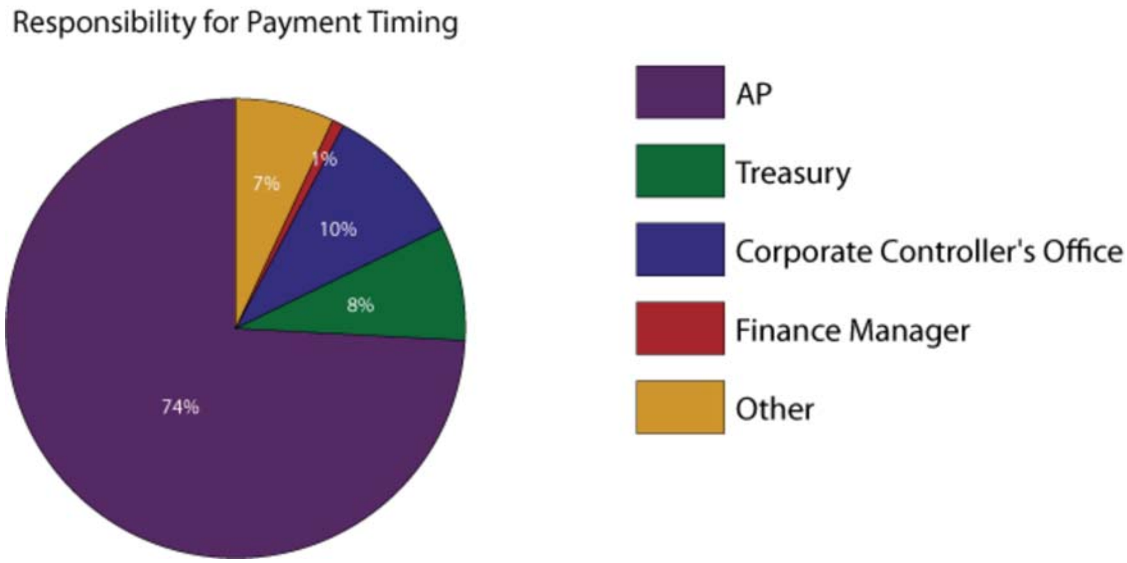
Payment terms are standard across organizations of all sizes and industries in this predominately North American survey group.

Predominant Payment Terms

All Participants	Number of Days
First Quartile	30
Median	30
Third Quartile	30
Average	33

Initiating Payment

In most organizations, accounts payable departments are responsible for determining when to initiate payment. However, in some cases other departments will make the decision, often based on the organization's cash management goals.



While AP makes the decisions in most companies, larger organizations are more likely than smaller ones to have the treasury department make payment timing decisions.

On-Time Payment

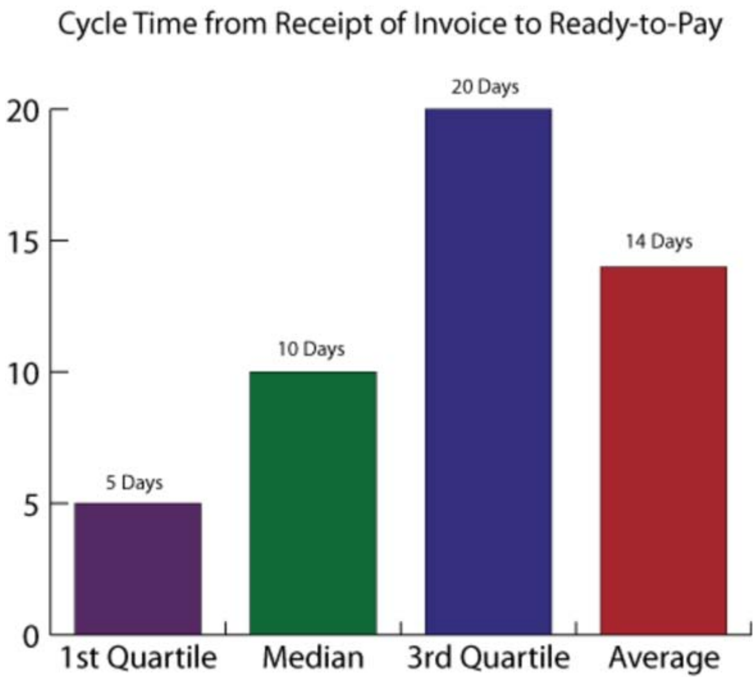
A key metric for accounts payable departments to track is their paid-on-time rate. Most AP strategic initiatives - such as pursuing discounts and negotiating with vendors to accept alternate payment methods - hinge on AP's ability to pay invoices on time.

Paid On-Time Rate

All Industries	Percent
Lower Quartile	80%
Median	90%
Upper Quartile	95%
Average	82%

Invoice Cycle Time

Considering 30-day payment terms, most AP departments are capable of approving invoices for payment fairly quickly. The median organization approves an invoice for payment 10 days after it arrives in AP. However, overall invoice cycle time can be extended if invoices are not arriving in AP promptly. If an invoice arrives in AP more than 20 days after the organization receives it, it may be paid late.



Early-Payment Discounts

One of the best ways accounts payable departments can contribute to the bottom line is by capturing early payment discounts. Because not many vendors are willing to offer discounts, AP must be able to approve invoices fast enough to capture those that are available. Large organizations are typically better equipped than small companies to approve invoices fast enough to take advantage of discounts.

Percent of Suppliers Offering Early-Payment Discounts

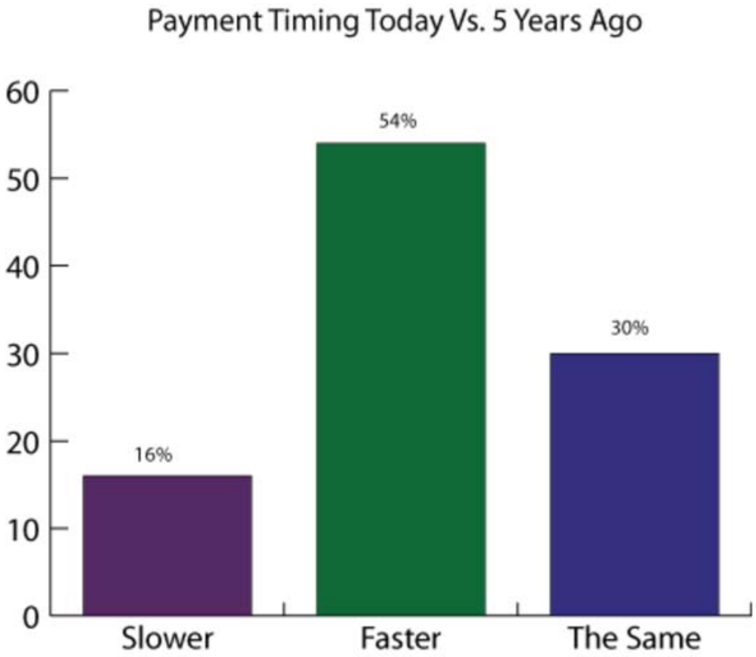
All Participants	Percent
Lower Quartile	1%
Median	5%
Upper Quartile	10%
Average	11%

Percent of Early-Payment Discounts Captured

All Participants	Percent
Lower Quartile	0%
Median	5%
Upper Quartile	86%
Average	36%

Payment Timing Today Vs. Five Years Ago

Perhaps as a sign that the cash crunch many organizations experienced during the last several years is ending, a majority of participants report that they are paying suppliers faster today than they did five years ago.



Disbursement Volumes

Checks remain the most common disbursement method, both in terms of the percentage of total spend and the percentage of total invoices.

Percent of AP Spend by Disbursement Type

	Check	ACH	Wire Transfer	Commercial Card
First Quartile	29%	5%	1%	0%
Median	57%	20%	5%	5%
Third Quartile	85%	52%	15%	10%
Average	55%	31%	13%	9%

Percent of Invoices Paid by Disbursement Type

	Check	ACH	Wire Transfer	Commercial Card
First Quartile	35%	5%	1%	0%
Median	65%	20%	5%	5%

Third Quartile	90%	50%	10%	10%
Average	59%	30%	10%	8%

The largest companies have been the most successful and reducing check volumes. Checks make up just 35 percent of AP spend at the median organization with more than 20,000 people. Checks represent 82 percent of total AP spend at the median organization with fewer than 250 employees.

Cost per Invoice

TAPN's survey defined cost per invoice as the total direct AP operating cost (excluding corporate overhead) divided by the number of invoices processed. While the median cost is $5 per invoice, some participants reported costs above $30 per invoice.

Cost to Process an Invoice

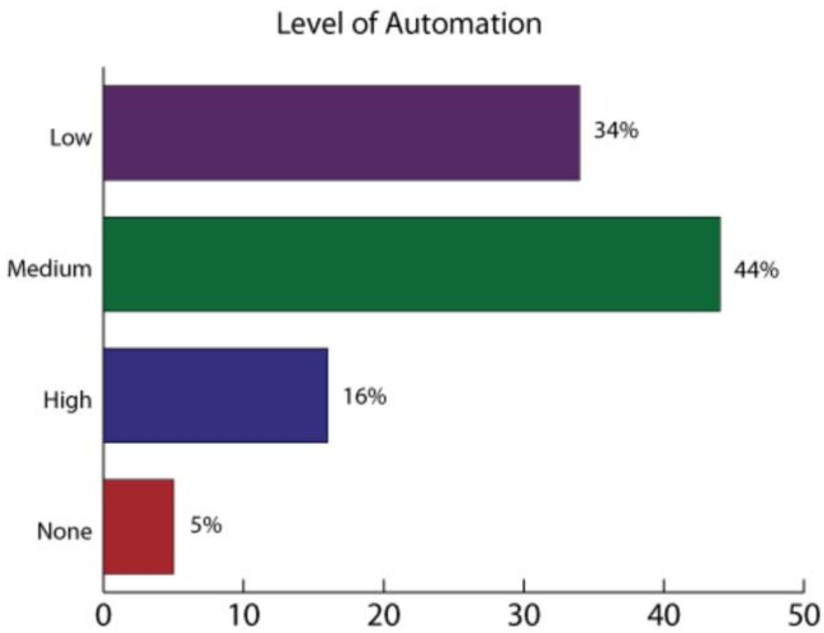
All Participants	Cost
Upper Quartile	$2.44
Median	$5.00
Lower Quartile	$11.53
Average	$13.49

The smallest companies typically pay three times as much as the largest to process a single invoice. The median participant with 20,000+ employees spends $2 to process a single invoice, compared to $6.27 for organizations with fewer than 250 employees.

Use of Technology

Level of Automation

The survey asked participants to identify their level of automation. Sixty percent of organizations describe themselves as medium or highly automated, while just 5 percent say they have no automation in place.



As would be expected, the larger companies are the most likely to report a medium or highly automated environment. Seventy-eight percent of participants with 20,000+ employees describe themselves this way, compared to 41 percent of organizations with fewer than 250 employees.

Implemented Systems

The following is a listing of available accounts payable automation technologies and the percent of participants using them, and their level of satisfaction. Purchasing cards and automated workflow are the most commonly-implemented systems, with most users also reporting satisfaction with the technologies.

Implemented Automation Technologies

Technology	Implemented	Not Implemented
Front-End Imaging	53%	47%
OCR/Data Extraction	34%	66%
Automated Workflow	58%	42%
Vendor Web Portal	31%	69%
Traditional EDI	47%	53%
Web-Based EDI	31%	69%
e-Invoicing/EIPP	34%	96%
T&E Expense Report Software	56%	44%
P-Card	59%	41%
Commercial Card (Used to Pay AP Invoices)	48%	52%

Satisfaction with Automation Technologies

Technology	Very Satisfied	Mostly Satisfied	Mostly Dissatisfied	Very Dissatisfied
Front-End Imaging	37%	52%	8%	4%
OCR/Data Extraction	30%	50%	14%	6%
Automated Workflow	38%	45%	14%	4%
Vendor Web Portal	30%	40%	18%	12%
Traditional EDI	30%	56%	10%	4%
Web-Based EDI	28%	56%	10%	6%
e-Invoicing/EIPP	27%	56%	10%	7%
T&E Expense Report Software	40%	48%	9%	3%
P-Card	37%	43%	15%	6%
Commercial Card (Used to Pay AP Invoices)	35%	49%	0%	15%

Implementation Method

Although software-as-a-service and cloud implementation models have made rolling out AP automation software easier and less-expensive than before, most organizations are still using technologies installed on-premises.

Automation Implementation Method

Technology	On-Premises Software	Software-as-a-Service/Cloud	Outsourced
Front-End Imaging	74%	13%	13%
OCR/Data Extraction	71%	13%	17%
Automated Workflow	82%	11%	6%
Vendor Web Portal	78%	15%	7%
Traditional EDI	83%	9%	8%
Web-Based EDI	67%	20%	13%
e-Invoicing/EIPP	75%	14%	11%
T&E Expense Report Software	61%	28%	11%

Straight-through Processing

A primary benefit of AP technologies like e-invoicing and automated workflow is that they enable straight-through processing, which is the ability to match and approve an invoice automatically with no human intervention.

Most organizations do not have a significant number of invoices processed straight-through. Only the largest organizations have made serious strides in this area. The median organization with 20,000+ employees reports that 40 percent of their invoices process straight-through.

Percent Invoices Processed Straight Through

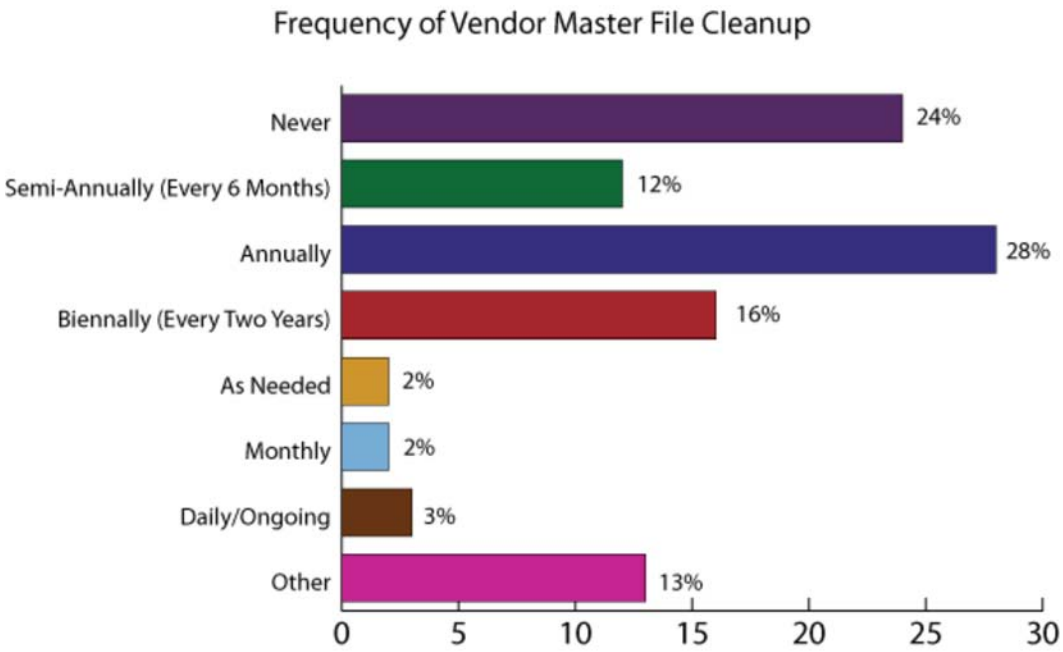
All Industries	Percentage
Lower Quartile	0%
Median	0%
Upper Quartile	30%
Average	20%

Vendor Master File

An organization's vendor master file is a vital source of information, meaning the data should always be accurate, current, and clean. Surprisingly, one-fourth of participants never clean the data in their master file. With the average master file containing 17,000 vendors (the average organization with more than 20,000 employees has 50,000 vendors), it is important for AP departments to rid the file of inactive and duplicate entries.

Number of Vendors in Master File

All Participants	Number of Vendors
1st Quartile	1,500
Median	5,000
3rd Quartile	15,000
Average	17,509



Regulatory Compliance

Being the department that ultimately controls when money leaves the organization, accounts payable departments have several regulatory issues to keep track of. While most departments report complying with all regulations, there are some trouble spots. For example, organizations are more likely to struggle with state 1099 reporting and withholding and OFAC compliance.

Compliance with Regulatory Requirements

	VAT	1099/1042-S Payment and Withholding	State 1099 Reporting	State Contractor Reporting	Sales & Use Tax	Unclaimed Property Reporting and Escheatment	Checking Vendor Master File Against OFAC SDN List/UN Blocked Parties List
Fully Compliant	36%	81%	66%	44%	71%	62%	39%
Partially Compliant	7%	9%	8%	6%	11%	16%	19%
Not Compliant	1%	0%	2%	2%	0%	4%	10%
Not Sure	17%	3%	7%	17%	4%	8%	17%
Not Applicable	40%	6%	18%	30%	13%	11%	15%

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