Visibility into the Accounts Payable Process:

Measuring and Reporting on KPIs and Metrics

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Introduction: Visibility Tools

In this age of "big data" and technological advances, when boards of directors are challenging organizations to better manage their cash flow, a new study shows most accounts payable (AP) departments are still using outdated tools to track their key performance indicators (KPIs).

Results were consistent across all industries, organizations of all sizes, and different types of AP operations, according to the findings of a study of visibility into the AP process conducted this spring by the Institute of Finance & Management and The Accounts Payable Network, in partnership with business document automation solution provider Esker. That means the road is wide open for AP teams to adopt tools that will give them better visibility into how money flows into and out of their organizations. With these latest tools, they can continue to move AP into an even more strategic role.

The study looked at: what types of advantages can be gained from a dashboard tool, what information a dashboard tool contains and who has access to it. The study also examined the reasons some AP teams are holding back from adopting dashboards as well as technology in general.

It's clear that dashboard tools displaying KPIs and metrics offer a virtually untapped advantage organizations can use to continuously improve their financial performance — and, more importantly, to stay ahead of the competition.

About the Respondents

Of the 129 people who answered the survey, 10.1 percent said they are part of a procure-to-pay operation, and the others were almost evenly split between being part of a separate AP department (44.2 percent) and part of a financial shared services team (45.7 percent).

It should be noted that the number of respondents working in shared services centers was particularly high for this study, indicating that this relatively new way of operating AP centers is linked to an interest in AP technology. AP involvement in shared services centers, where operations are consolidated with other functions such as accounts receivable and procurement, has been steadily increasing over the years. The IOFM's annual benchmarks study, *The State of Accounts Payable 2014*, showed 25 percent of respondents were part of an AP team in shared services, compared to 15 percent five years earlier.

How is Your AP Team Organized?

Part of a Financial Shared Services Team — 45.7%

Separate AP Department — 44.2%

10.1%

Part of a Procure-to-Pay Team
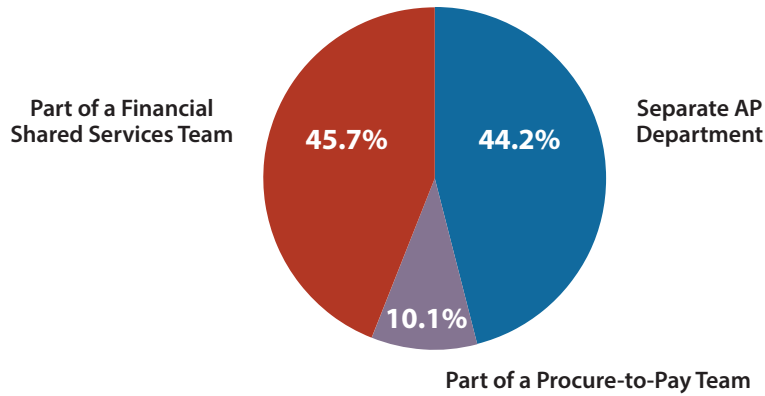
About 86 percent of the respondents said they are AP professionals, with 58.9 percent holding the title of supervisor, manager or director and 27.1 percent identifying themselves as AP practitioners. Among other titles: controller (11.6 percent), CFO (1.6 percent) and other including purchasing, procurement and IT (0.8 percent).

What is Your Specific Title or Job Function?

CFO, 1.6%   **IT,** 0.8%

Controller 11.6%

AP Practitioner 27.1%

AP Supervisor/ Director/Manager 58.9%
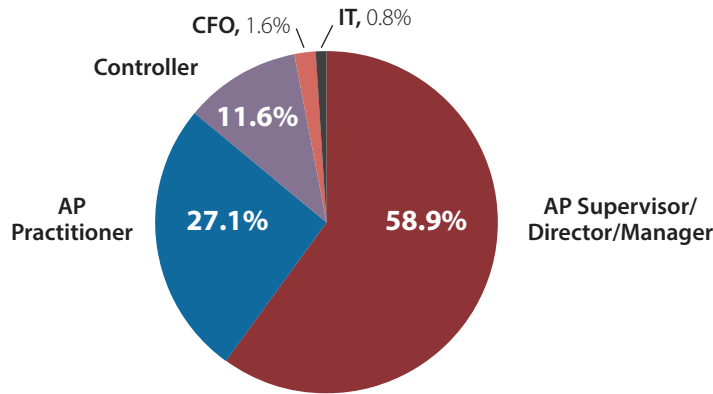
Respondents were from companies of various revenue levels. The largest sampling, more than one-third, was made up of respondents from the largest organizations, those with $1 billion or more in revenue. Specifically, 17.8 percent were at $1 billion to $2.9 billion and 17.1 percent were at more than $3 billion.

Smaller organizations, those with less than $10 million in revenue, represented the smallest category with 8.5 percent of the sampling.

In Which Revenue Size Range was Your Company Last Year?

Answer Options	Response Percent
More than $3 billion	17.1%
$1 billion to $2.9 billion	17.8%
$500 million to $999.9 million	16.3%
$100 million to $499.9 million	14.0%
$50 million to $99.9 million	4.7%
$25 million to $49.9 million	8.5%
$10 million to $24.9 million	13.2%
Less than $10 million	8.5%

Respondents were also from a variety of industries, with government and nonprofit making up the largest number in the sampling at 19.4 percent. Healthcare providers and payers weighed in at 16.3 percent, and manufacturing and financial services tied at 10.9 percent.
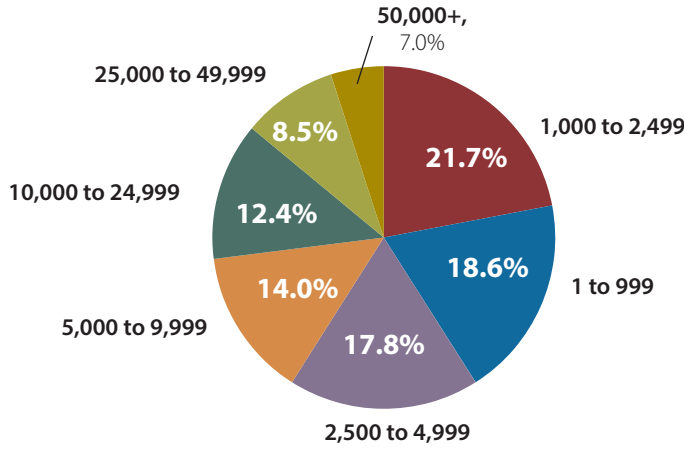
Which of the Following Best Describes Your Company's Industry?

Answer Options	Response Percent
Government and Nonprofit	19.4%
Healthcare (Providers and Payers)	16.3%
Financial Services (Banking, Insurance, Brokerage, Investments)	10.9%
Manufacturing (Consumer Goods)	10.9%
High Tech/Telecommunications/Information Technology	7.0%
Manufacturing (Industrial Goods)	7.0%
Wholesale/Distribution	5.4%
Retail Trade	4.7%
Transportation (Airlines, Trucking, Rail, Shipping, Logistics)	4.7%
Construction/Engineering/Mining	3.9%
Energy/Utility	3.9%
Professional Services (Legal, Consulting, Accounting, Architecture)	3.1%
Advertising/Marketing/PR/Media/Entertainment	1.6%
Pharmaceuticals and Medical Products	0.8%
Real Estate	0.8%

The AP departments represented in the survey process a varying number of invoices per month. Nearly one-third (27.9 percent) handle more than 10,000 a month: 12.4 percent between 10,000 and 24,999, 8.5 percent between 25,000 and 49,999, and 7 percent as many as 50,000 or more.

About 18.6 percent fell into the smallest category, handling up to 999 a month. Another 21.7 percent said they handle 1,000 to 2,499 a month, 17.8 percent handle 2,500 to 4,999 a month, and 14 percent handle 5,000 to 9,999.

How Many Invoices Do You Estimate Your Accounts Payable Department Processes Per Month?

- 50,000+, 7.0%
- 25,000 to 49,999: 8.5%
- 10,000 to 24,999: 12.4%
- 5,000 to 9,999: 14.0%
- 2,500 to 4,999: 17.8%
- 1 to 999: 18.6%
- 1,000 to 2,499: 21.7%

A large majority of respondents (78.3 percent) said they come from departments with small AP teams of one to 14 employees. Only 3.1 percent fell into the highest range with 100 or more employees.

How Large is Your AP Department in Terms of Numbers of Employees?

- 100+, 3.1%
- 50 to 99, 4.7%
- 15 to 49: 14.0%
- 1 to 14: 78.3%
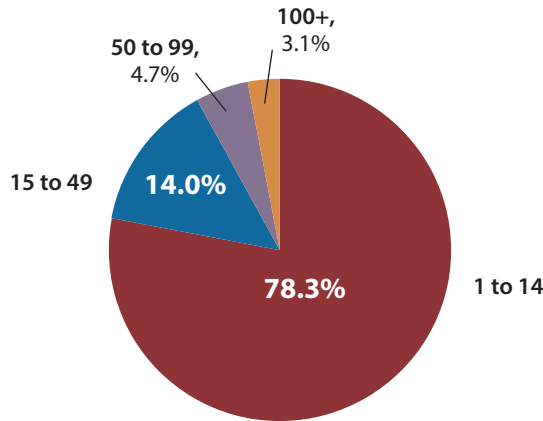
Tracking Metrics

The survey showed just how much impact an AP team can make if it adopts the most updated tools to track performance and conduct cash management responsibilities. It also revealed how few AP teams have jumped on board to do this.
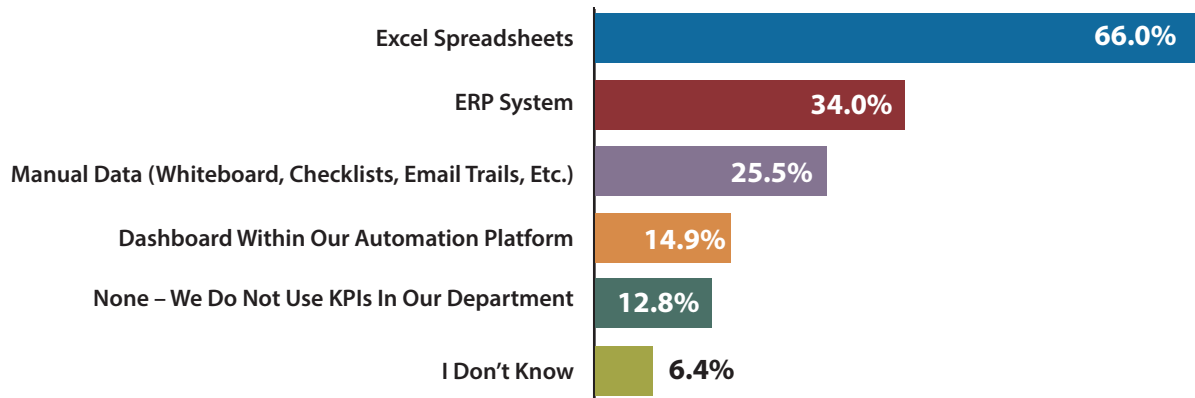
A full 66 percent of AP professionals who responded to the survey said they track KPIs in their departments using Excel spreadsheets, and 25.5 percent rely on whiteboards, checklists and email trails.

Only 14.9 percent of respondents said they employ the latest technology, which allows them to track metrics using "dashboards" in their automation platform that display key data. Interestingly, the use of

dashboards was not determined by size of company, but by annual revenue. The largest use was in companies of more than $1 billion in revenue or less than $10 million. Those in between reported very little use of dashboards, including two categories that showed no use of dashboards at all: those in the revenue ranges of $500 million to $999.9 million and $50 million to $99.9 million.

About 34 percent of respondents said they use their ERP systems to monitor performance. Almost 13 percent said their departments don't track KPIs at all, and another 6.4 percent said they're not sure whether their workplaces are even tracking metrics.
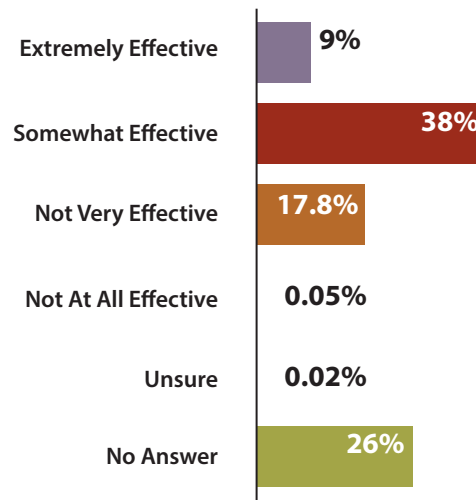
What Tools Does Your Operation Use to Monitor its Metrics and Key Performance Indicators?

Tool	Percentage
Excel Spreadsheets	66.0%
ERP System	34.0%
Manual Data (Whiteboard, Checklists, Email Trails, Etc.)	25.5%
Dashboard Within Our Automation Platform	14.9%
None – We Do Not Use KPIs In Our Department	12.8%
I Don't Know	6.4%

When asked to rate how effectively their departments track KPIs, only 9 percent picked the option "extremely." Another 38 percent picked varying degrees of "somewhat effective," and 17.8 percent said "not very." Only about half of a percent said their departments are not at all effective in tracking KPIs, and a few respondents said they were unsure. About 26 percent did not answer the question at all.

It's interesting to note that the respondents whose organizations are using dashboards were all over the board in their opinions about the effectiveness of their departments in tracking KPIs — an indication that many AP professionals still haven't learned how to use the latest tools to their full advantage.

How Effective Do You Feel Your AP Department is at Tracking Metrics and KPIs?

Response	Percentage
Extremely Effective	9%
Somewhat Effective	38%
Not Very Effective	17.8%
Not At All Effective	0.05%
Unsure	0.02%
No Answer	26%

The study asked respondents which metrics are the most important to track. Duplicate and erroneous payments topped the list, cited by 57.4 percent of respondents. This is consistent with the push in recent years to keep a stricter eye on money going out of the organization, which became a heightened concern during the recession and has continued to take a high priority.

Non-purchase order (PO) vs PO invoices drew the second-highest response, cited by 47.9 percent. This could indicate a larger emphasis on watching purchase order activity — again, as a method of controlling an organization's cash management.

One of the other most-watched metrics, at 41.5 percent, was the number of captured early payment discounts. Analysts have been following this trend closely because so many AP departments are not equipped to take full advantage of early pay discounts. In the IOFM's study **Benchmarks: The State of Accounts Payable 2014,** respondents said early pay discounts are offered on an average of about 14 percent of invoices received, and only an average of 58 percent are captured. This indicates AP departments could benefit from being more proactive in seeking and capturing discount opportunities.

Which of the Following Metrics are Most Important to Track?

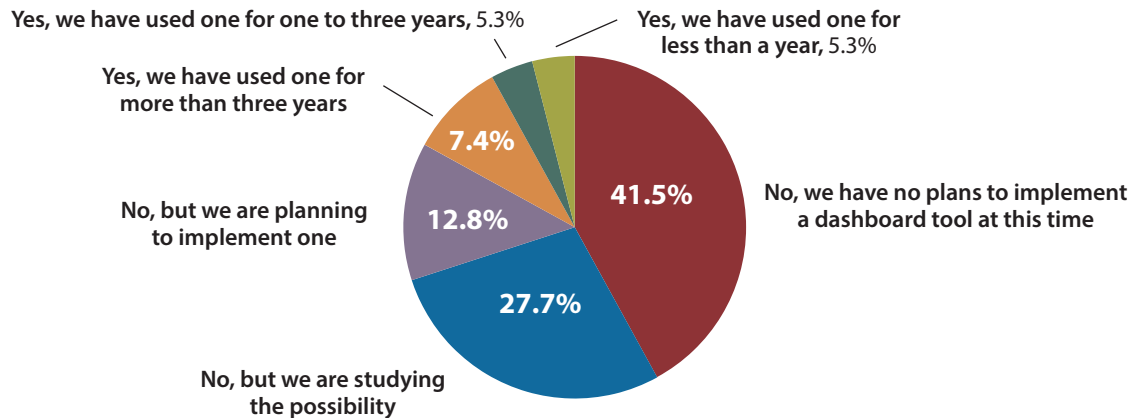| Answer Options	Response Percent
Duplicate/Erroneous Payments	57.4%
Non-PO Invoices vs. PO Invoices	47.9%
Number/Value of Invoices Processed	45.7%
Number of Invoices Processed Per FTE	42.6%
Number of Invoices Paid on Time Per Vendor	41.5%
Captured Early Payment Discounts	41.5%
Percentage of Invoices Requiring Exception Handling	40.4%
Average Invoice Processing Time	40.4%
Number of Overdue Invoices	35.1%
Cost Per Invoice	33.0%
Percentage of Transactions that are Automated	30.9%
Number of Invoices in Review	27.7%
Working Capital Forecast	20.2%

Using a Dashboard Tool

The study dove a little deeper into the use of electronic dashboards in AP departments, asking respondents whether they use them currently or have plans to implement them in the future. The tools are still new enough to draw curiosity if not widespread use.

On this question, a total of 18 percent said their organizations have dashboard tools to monitor AP activities — a deviation from the previous question that had calculated 14.9 percent using these tools. This indicates the technology is so new in some departments that some respondents are not yet using it.

Those workplaces with dashboard tools to monitor AP activities were in the minority, with 7.4 percent saying they've been in use for more than three years, 5.3 percent for one to three years, and another 5.3 percent for less than one year.

About 27 percent did not answer the question. Of those who did respond, about 12.8 percent are planning to implement an electronic dashboard, and 27.7 percent are studying the possibility. But 41.5 percent said there is no dashboard activity in their future at this time, and another 27 percent did not answer the question at all.

Does Your Organization Have an Electronic Dashboard Tool to Monitor AP Activities?

Yes, we have used one for one to three years, 5.3%

Yes, we have used one for less than a year, 5.3%

Yes, we have used one for more than three years 7.4%

No, we are planning to implement one 12.8%

No, but we are studying the possibility 27.7%

No, we have no plans to implement a dashboard tool at this time 41.5%

Respondents said the greatest advantage of using a dashboard tool, garnering a 27.3 percent response, is that it offers one-stop access to key information and tools for measuring the performance of their AP operations.

Other advantages cited: a quick glance of KPIs and business metrics tied with real-time information (18.2 percent each), ability to quickly spot issues and trends (15.2 percent), ability to instantly share information across different departments (12.1 percent), and easy access to actionable insights (9.1 percent).

These answers indicate a willingness to allow the information viewed on the dashboard to spur future action rather than just act as a reflection of past performance. This inclination toward predictability and proactive actions is another area under close scrutiny by C-suites and boards of directors — an indication that AP is moving up the ladder as a value-add component of an organization's financial structure instead of maintaining its traditional role as a back-office function.

What Do You See as the Greatest Advantage of Using a Dashboard Tool?

Answer Options	Response Percent
One-Stop Access to Key Information and Tools	27.3%
A Quick-Glance View of Key Performance Indicators and Business Metrics	18.2%
Real-Time Information Available at a Glance	18.2%
Ability to Quickly Spot Issues and Trends	15.2%
Ability to Instantly Share Information Across Different Departments	12.1%
Easy Access to Actionable Insights	9.1%

When asked about the greatest result of using a dashboard tool, the largest number of respondents cited increased visibility (37 percent), followed closely by better process efficiency (33.3 percent). They also cited improved reporting (22.2 percent) and better budget monitoring (7.4 percent).

Three choices drew no answers at all: better resource allocation, better cash planning and improved speed in closing procedures.

What is the Greatest Result You Have Experienced as a Result Of Using a Dashboard Tool?
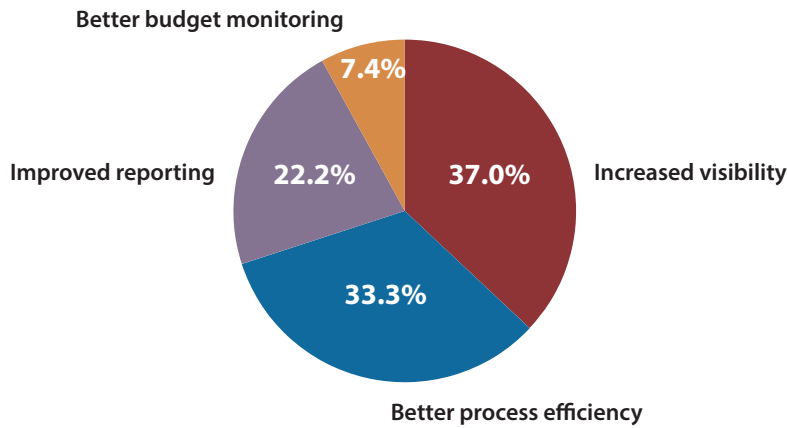
Dashboard tools can include information relevant to the department or even the individual user, and they can be tailored to show information according to the user's login permissions. A CFO's dashboard can be set up to look very different from that of an AP supervisor, highlighting separate sets of metrics.

In this survey, respondents indicated the dashboard tools they use in their AP departments are very specific to their job functions. About 69 percent of the respondents using dashboards say their tools include AP process metrics. The second-highest answers, tied at 37.9 percent, were AP cash flow and days payable outstanding (DPO).

What Information Does Your Dashboard Tool Include?

Answer Options	Response Percent
AP Process Metrics	69.0%
AP Cash Flow	37.9%
Days Payable Outstanding (DPO)	37.9%
Process Efficiency	31.0%
Accrual Reporting	27.6%
Payment KPIs	27.6%
Requests Pending Approval	24.1%
Organization Spend Overview	20.7%
Spend by Category, Volume and Supplier	20.7%
Visibility Over Spend	13.8%
Spend Analysis and Trends	10.3%
Budget Control and Forecasts	6.90%

Another question asked which personnel have access to the dashboards, giving respondents the option of checking all answers that apply. Of those who employ dashboards, 88.9 percent said AP supervisors, managers and directors are using the tools, and about 40.7 percent said controllers are viewing them. Two other types of personnel tied at 33.3 percent: executive management and AP practitioners.

Which Personnel Have Access to the Dashboard?
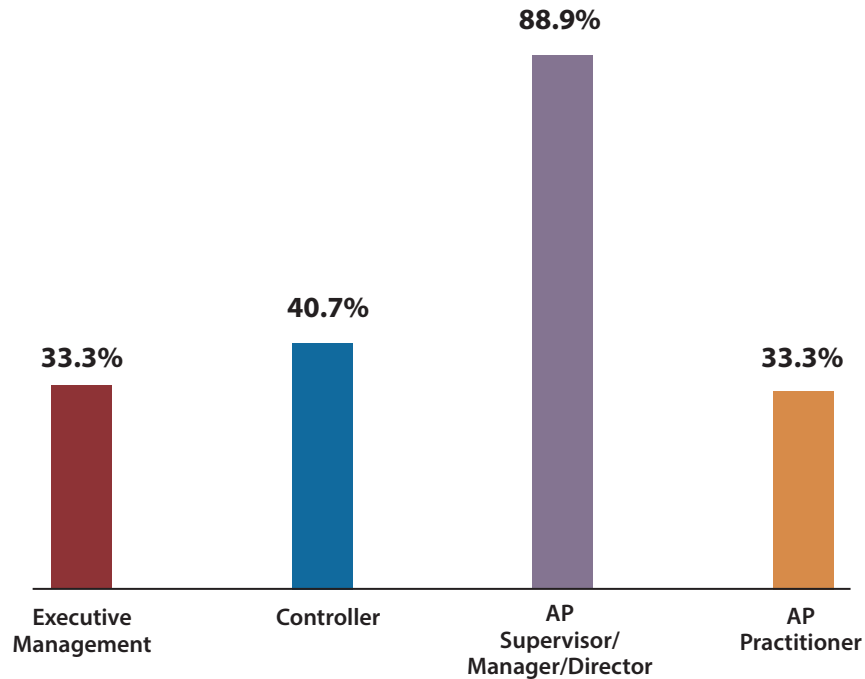
When asked what metrics they're reporting on, there were some disconnects between respondents' answers to this question and an earlier one about what they believe are the most important metrics to track.

While they believe they should be tracking metrics that would make their departments proactive, such as duplicate or erroneous payments and captured early pay discounts, they are actually using the dashboards to track the basics of AP performance: the number and value of invoices processed (54.8 percent), non-PO vs. PO invoices (45.2 percent), the number of invoices paid on time per vendor (41.9 percent), and the number of invoices processed per full-time equivalent employee or FTE (38.7%).

When the newness of this type of tool wears off and baselines for those metrics are well established, it will be interesting to see whether organizations will turn to other, more proactive, uses for their dashboards.

Which Metrics Are You Reporting?

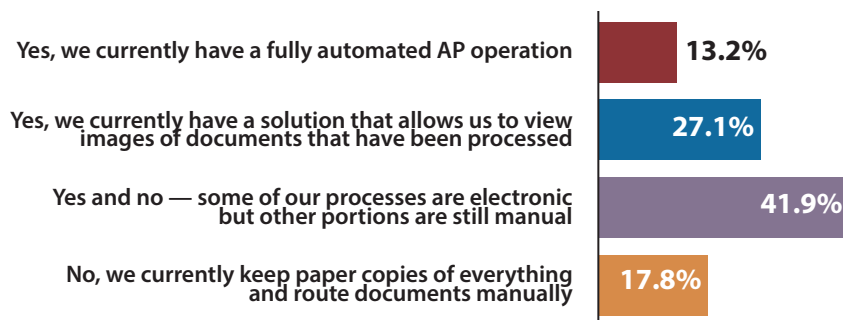| Answer Options	Response Percent
Number/Value of Invoices Processed	54.8%
Non-PO Invoices vs. PO Invoices	45.2%
Number of Invoices Paid on Time Per Vendor	41.9%
Number of Invoices Processed Per FTE	38.7%
Duplicate/Erroneous Payments	35.5%
Percentage of Transactions that are Automated	29.0%
Captured Early Payment Discounts	25.8%
Number of Overdue Invoices	25.8%
Average Invoice Processing Time	22.6%
Number of Invoices in Review	16.1%
Percentage of Invoices Requiring Exception Handling	16.1%
Working Capital Forecasting	9.7%
Cost Per Invoice	3.2%

Technology Adoption

The study attempted to gauge how open organizations are to new technology in their AP departments. One question asked respondents whether they have a solution in place to allow for any automation.

Most respondents said their departments are at least partially automated: 13.2 percent have a fully automated AP operation, 27.1 percent have the ability to view images of processed documents electronically, and 41.9 percent have a combination of automated electronic and paper processes.

Only 17.8 percent said their departments are not using any automation, choosing instead to work with paper documents and route their approvals manually.

Does Your Organization Have a Solution In Place to Allow for Any Automation Within the AP Department?

Yes, we currently have a fully automated AP operation	13.2%
Yes, we currently have a solution that allows us to view images of documents that have been processed	27.1%
Yes and no — some of our processes are electronic but other portions are still manual	41.9%
No, we currently keep paper copies of everything and route documents manually	17.8%

When asked whether their organizations have embraced cloud-based technology overall and in their AP departments, almost half (46.5 percent) said no. About 22.5 percent said their companies use cloud-based solutions but not in AP, and 17.1 percent said their AP departments do use cloud-based technology. A full 14 percent said they were not sure.

Consumers are driving the demand for cloud-based technology, forcing companies to allow them to make purchases and pay bills online and skip mailing paper checks. But there is still reluctance among enterprises to use the cloud for business-to-business transactions, especially financial ones, because of the perceived risks of security breaches that can create major headlines. This debate is expected to continue for some time until organizations can devote the time to researching the benefits of cloud-based technology and determining how to integrate it into their processes.

Does Your Company/Department Currently Use Any Cloud-Based Software Services?
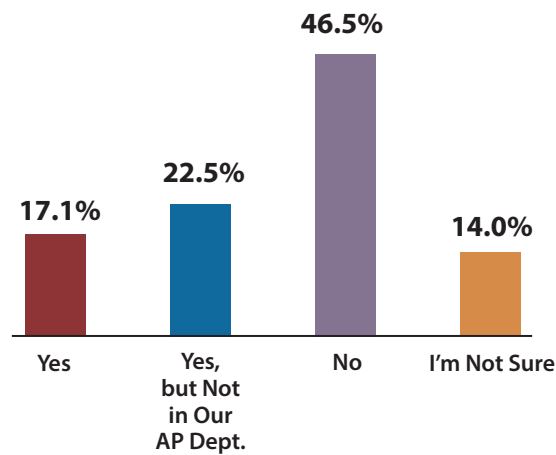
The study asked which obstacles are keeping AP departments from implementing cloud-based technology. The top answer, which 34.1 percent cited, was that higher-priority projects are competing with these initiatives.
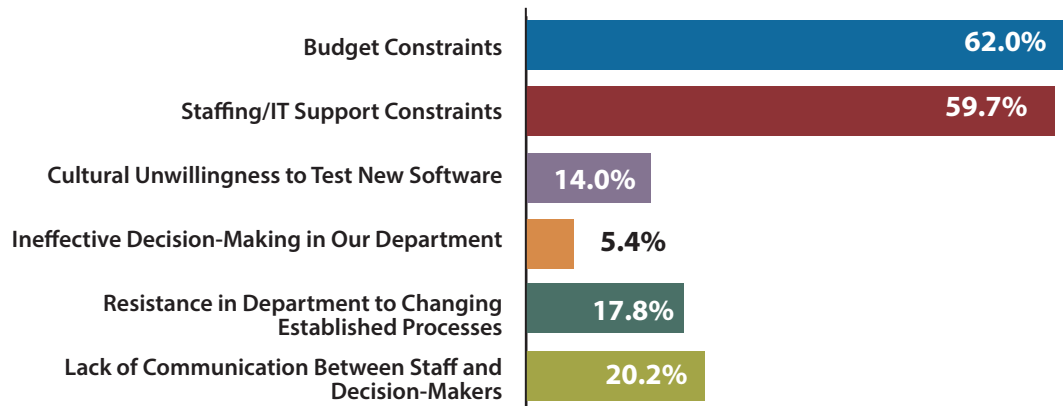
Other top answers: no resources in the budget for new software products (24 percent) and lack of IT support and resources (21.7 percent). These answers show a lack of knowledge among organizations about the top benefits of cloud-based solutions and SaaS products — that they are sold as "pay as you go" and are usually easy to implement without much interaction from the IT department.

What Obstacles Keep You From Implementing Cloud-Based Software in Your AP Department?

Answer Options	Response Percent
Higher-Priority Projects	34.1%
No Resources in Budget for New Software Products	24.0%
Nothing — We are Implementing	23.3%
Lack of IT Support/Resources	21.7%
No Compelling Business Drivers	17.8%
Difficulty of Integrating into Other Systems	14.7%
Do Not Know Where to Start	14.7%
Lack of Management Support	14.0%
Lack of Understanding of Benefits of Cloud-Based Software	10.9%
Working Capital Forecasting	9.7%
Difficulty of Rolling Out New Software Across Multiple Global Locations	3.9%
Cost Per Invoice	3.2%
No Solutions Available that Will Meet Our Needs	0.8%

The responses to another question also lend insight into what is holding AP departments back from exploring and implementing new technology. Respondents were asked: When it is difficult to deploy new software solutions, what are the primary causes? The top two answers were very similar: budget constraints (62 percent) and staffing/IT support constraints (59.7 percent).

**When it is Difficult to Deploy New Software Solutions,
What are Primary Causes of the Difficulty?**

Category	Percentage
Budget Constraints	62.0%
Staffing/IT Support Constraints	59.7%
Cultural Unwillingness to Test New Software	14.0%
Ineffective Decision-Making in Our Department	5.4%
Resistance in Department to Changing Established Processes	17.8%
Lack of Communication Between Staff and Decision-Makers	20.2%

Conclusion: The Future of Metrics

Technology will continue to offer new ways of saving organizations time and money — challenging AP departments to keep up with current times. Dashboards are becoming known as a tool of choice for organizations to measure and monitor their AP performance — a key factor in determining whether they are remaining competitive or lagging behind. Yet this study shows there is still much room for organizations to develop in the latest areas of AP automation.

AP teams can either adopt innovative solutions and lead the movement toward stronger cash management, or stand by and watch while other departments initiate new technology and follow behind. Either way, it's clear AP professionals will need to continue developing new skill sets in order to excel in the future.

About IOFM

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About The Accounts Payable Network

With a network of more than 50,000 AP process owners in the U.S. and around the world, and a host of membership benefits, The Accounts Payable Network (TAPN) is the world's largest AP-focused organization. The AP Network's deep, comprehensive resources for executives and managers who oversee accounts payable give you point-and-click access to exclusive accounts payable knowledge base help. Focus areas include best practices for every AP function; AP metrics and benchmarking data; tax and regulatory compliance; solutions to real world problems; AP automation case studies; member Q&A networking forums, calculators, and more than 300 downloadable, customizable AP policies, flowcharts, templates and internal control checklists. To learn more, visit www.theaccountspayablenetwork.com.

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