

**FALL 2017**

# **IS YOUR AP PERFORMANCE TOP TIER?**

---

**HOW TO USE KEY METRICS  
TO CHART YOUR AP  
IMPROVEMENT JOURNEY**

Jess Scheer, Editor

# CONTENTS

---

<b>INTRODUCTION .....</b>	<b>5</b>
How to Use This Report .....	6
How to Build and Use a Measurement Dashboard .....	6
Additional Notes .....	8
Where Does My Journey Begin? .....	9
<b>CAPTURING EARLY PAY DISCOUNTS .....</b>	<b>11</b>
Potential for Early Discounts .....	11
Opportunity for Early Discount.....	12
Share of Discounts Captured .....	13
<b>EFFICIENCY: HOW FAST IS YOUR PROCESS? .....</b>	<b>14</b>
Invoices Per FTE .....	14
Paid on Time .....	16
Cost Per Invoice.....	18
Staff Leverage Ratios .....	20
<b>EFFECTIVENESS: HOW GOOD IS YOUR PROCESS? ...</b>	<b>21</b>
PO First Pass Match Rate .....	21
Share of PO Invoices With a Mismatch .....	22
Share of PO Invoices Requiring Correction.....	23
Share of Duplicate Payments .....	24
<b>APPENDIX .....</b>	<b>25</b>
Survey Demographics .....	25
Relevant Survey Questions and Definitions .....	26
<b>About IOFM.....</b>	<b>27</b>

# TABLE OF FIGURES

---

FIGURE 1. AP Performance Key Performance Indicators.....	6
FIGURE 2. Example Blank KPI Dashboard Template .....	6
FIGURE 3. Respondents Split by Degree of Centralization.....	9
FIGURE 4. Respondents Split by Degree of Automation .....	9
FIGURE 5. Correlation between Centralization and Automation, Top Performers.....	10
FIGURE 6. Correlation between Centralization and Automation .....	10
FIGURE 7. Correlation between Centralization and Automation, by Performance .....	10
FIGURE 8. Share of Invoices Offering Discounts, Split by Structure.....	11
FIGURE 9. Share of Invoices Offering Discounts, Split by Automation .....	11
FIGURE 10. Typical Size of Discount, Split by Structure .....	12
FIGURE 11. Typical Size of Discount, Split by Automation .....	12
FIGURE 12. Share of Discounts Captured, Split by Structure .....	13
FIGURE 13. Share of Discounts Captured, Split by Automation.....	13
FIGURE 14. Annual Number of Invoices Per FTE, Detailed Peer Group Analysis, Split by Structure .....	15
FIGURE 15. Invoices Per FTE, Split by Automation.....	15
FIGURE 16. Share Who Pay > 90% of Their Invoices on Time, Split by Automation.....	16
FIGURE 17. Paid on Time (PO), Split by Structure.....	16
FIGURE 18. Paid on Time (OP), Split by Automation.....	17
FIGURE 19. Paid on Time (Non-PO), Split by Structure .....	17
FIGURE 20. Paid on Time (Non-PO), Split by Automation .....	19
FIGURE 21. Cost Per Invoice, Overall .....	19
FIGURE 22. Cost Per invoice, Split by Automation .....	19

## Table of figures (cont.)

---

FIGURE 23. Manager to Specialist Ratio, Split by Structure.....	20
FIGURE 24. Staff Ratios, Split by Structure .....	20
FIGURE 25. Staff Ratios, Split by Automaton .....	20
FIGURE 26. PO First Pass Match Rate, by Structure .....	21
FIGURE 27. PO First Pass Match Rate, by Structure, Split by Automation.....	21
FIGURE 28. Share of PO Invoices with a Mismatch, Split by Structure.....	22
FIGURE 29. Share of PO Invoices with a Mismatch, by Structure, Split by Automation.....	22
FIGURE 30. Share of PO Invoices Requiring a Correction, Split by Structure.....	23
FIGURE 31. Share of PO Invoices Requiring a Correction, Split by Automation.....	23
FIGURE 32. Share of Duplicate Payments, Split by Structure .....	24
FIGURE 33. Share of Duplicate Payments, Split by Automation .....	24
FIGURE 34. Revenue Split of Respondents .....	25
FIGURE 35. Industry Split of Respondents.....	25
FIGURE 36. Role Distribution of Respondents .....	25

# IS YOUR AP PERFORMANCE TOP TIER?

## HOW TO USE KEY METRICS TO CHART YOUR AP IMPROVEMENT JOURNEY

### INTRODUCTION

Improving your Accounts Payable performance is a journey along two connected paths:

- **Centralization of operations (from decentralization to a shared service model)**
- **Automation of processes (from paper to e-invoicing through e-payables)**

While the progression is predictable, each stage along the way comes with new challenges. At each level of development, the baseline for “good” performance changes. As you centralize your roles and invest in new technology, you should become more efficient and effective. But by how much?

And if you don’t know how much of an improvement in performance is “good,” how do you know if your current performance is as good as it could or should be? And how do you know how much of an improvement you could expect as you evolve to the next stage in your development?

Improving your AP performance requires continually measuring your progress and comparing it to each new peer set’s operational benchmarks.

As important as this assessment step is, few leaders do it today. Why? Because reliable data for each step of your journey hasn’t been available without commissioning your own private study. Off-the-shelf benchmarking reports tend to treat all AP functions the same, splitting peers by size, industry or geography – distinctions that don’t speak to the fundamental challenges facing ever-evolving payables professionals.

This report is designed to aid in your management decisions by segmenting data by the extent to which you’ve centralized your organizational structure and automated your processes. The challenge in reporting data along those two variables is that not every organization proceeds to each stage at the same pace.

# IS YOUR AP PERFORMANCE TOP TIER?

## HOW TO USE KEY METRICS TO CHART YOUR AP IMPROVEMENT JOURNEY

### HOW TO USE THIS REPORT

For each stage in development, along each track, we examine the key performance indicators (KPIs) you need to answer two fundamental questions:

1. Compared to my current peer group, where do I have room to improve – and by how much?
2. If I mature – either by further centralizing or investing in new automation technology – how much of an improvement is realistic?

The data in the subsequent pages are based on detailed assessments of nearly 250 AP departments. The analysis begins with an examination of early-pay discounts, enabling you to determine if your current performance is saving your business as much as your top peers. And then we expose how top performers achieve their success by examining eight Key Performance Indicators (KPIs).

EFFICIENCY	EFFECTIVENESS
Invoices Per FTE	PO First Pass Match Rate
Paid-on-Time	Share of PO Invoices With a Mismatch
Cost Per Invoice	Share of AP Transactions Requiring Corrections
Staff Leverage Ratios	Share of Duplicate Payments

FIGURE 1. AP PERFORMANCE KEY PERFORMANCE INDICATORS

### HOW TO BUILD AND USE A MEASUREMENT DASHBOARD

Our intent is for you to use these findings to build a credible snapshot of your department's current performance, and compare it to your peers. A dashboard can then be used to identify and prioritize the next action steps in your performance journey. Below is blank example we'd encourage you to consider when benchmarking your AP function.

KPIS	PEERS' TARGET RANGE	CURRENT PERFORMANCE	PERFORMANCE GAP	NOTES
<b>EFFICIENCY</b>				
Invoices Per FTE				
Paid-on-Time				
Cost Per Invoice				
Staff Leverage Ratios				
<b>EFFECTIVENESS</b>				
PO First Pass Match Rate				
Share of PO Invoices With a Mismatch				
Share of AP Transactions Requiring Corrections				
Share of Duplicate Payments				

FIGURE 2. EXAMPLE BLANK KPI DASHBOARD TEMPLATE

# IS YOUR AP PERFORMANCE TOP TIER?

## HOW TO USE KEY METRICS TO CHART YOUR AP IMPROVEMENT JOURNEY

You should customize the table by adjusting each column to fit your needs:

### Column 1.

**Prioritizing KPIs.** Measuring can be expensive and you may not easily or inexpensively be able to measure all eight metrics today. Pick the measures for which you can get reliable (i.e., consistent and highly valid) data and that most closely associate with the business issues you're trying to address. Don't measure for the sake of measuring.

### Column 2.

**Identifying your peer groups.** Based on your current level of maturity, select the organizational structure and automation enablement that most closely resembles where you are today. If your AP function is partially centralized, but mostly manual, select the top quartile benchmarks for those two peer groups and set the difference between those two numbers as your target range.

### Column 3.

**Measuring your performance.** Using IOFM's definitions to ensure apples-to-apples comparisons, measure your performance and add that data to the third column. (See appendix.)

### Column 4.

**Calculating gap.** Simply subtract your data from the midpoint of your peers' data range. For easy reference, color coding this column can be helpful: consider green if you're at or near the top tier range, red if you're closer to the bottom quartile, and yellow if you're somewhere in the middle.

### Column 5.

**Adding relevant comments.** All numbers need context. Are your staff leverage ratios artificially high because of a recent acquisition or recent hire/departure of staff? Use this column to notate the data for future reference.

# IS YOUR AP PERFORMANCE TOP TIER?

## HOW TO USE KEY METRICS TO CHART YOUR AP IMPROVEMENT JOURNEY

### ADDITIONAL NOTES:

It is best practice to set goals from the start by determining what you plan to do with the dashboard results. Waiting to come up with even a high-level action plan until the results are tabulated can lead to finger pointing and could derail the performance improvement effort from the start.

Options to consider: If your efficiency measures are solid (yellow with a few greens), but your effectiveness measures are weak (mostly red, with only a few yellows) it may mean your process is too fast and you're at risk of making duplicate payments and tripping regulatory fines. Adding staff and/or tightening internal controls may make sense.

Alternatively, if your effectiveness metrics are all top tier, but you're operating inefficiently, your controls may be too tight. Consider Assumed Receipt (especially for materials, repairs and operating expenses) or Evaluated Receipt Settlement.

And if you're no better than average across the board today, there are probably low-cost process improvements you can make before considering taking on significant operational or technology investments.

There are countless ways to improve AP performance. The goal of this report is to help you quantify your opportunities for improvement and, when ready, help you justify the business case for the next stage in your development.

### PEER GROUPS

To enable you to best match your current level of maturity, every data point in this report is split into two peer groups:

#### Organizational Structure

**Decentralized:** Operations distributed throughout businesses; no single AP department

**Partially centralized:** Some AP functions operate together, but many are still scattered across the business

**Centralized – but not a shared service:** All AP functions work in a single group, but AP is not operating jointly with other related functions, such as procurement

**Shared services:** All AP functions are combined and working in tandem with all other related operational functions, including procurement.

#### Automation Enablement

**Limited Automation:** No more than 20% of invoices received electronically

**Moderate Automation:** 21-69% of invoices received electronically

**Significant Automation:** At least 70% of invoices received electronically



# IS YOUR AP PERFORMANCE TOP TIER?

## HOW TO USE KEY METRICS TO CHART YOUR AP IMPROVEMENT JOURNEY

### WHERE DOES MY JOURNEY BEGIN?

Roughly, one-quarter of AP functions are no more than partially centralized and one-quarter are fully centralized within a Shared Service Center (SSC). That means that half of all organizations fit between those two extremes. When analyzing automation, the overall sample was split into thirds, using electronic receipt of invoice as the key variable.

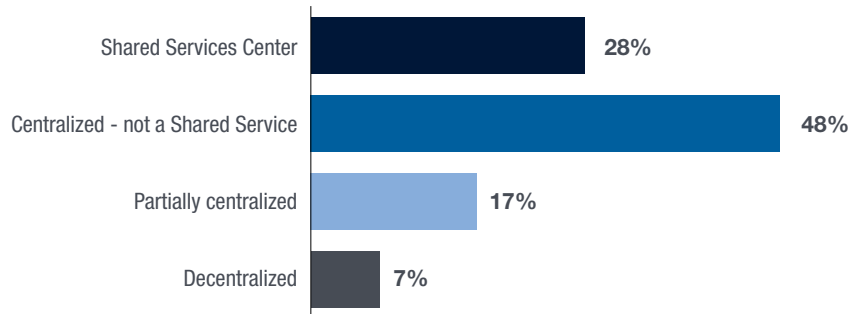


FIGURE 3. RESPONDENTS SPLIT BY DEGREE OF CENTRALIZATION



FIGURE 4. RESPONDENTS SPLIT BY DEGREE OF AUTOMATION

Within the largest cluster of AP functions, those that have centralized operations but are not consolidated into a SSC, levels of automation vary significantly. Top performing members of that group receive 75% of their invoices electronically, enabling a great deal of automated efficiency. However, bottom performers, within the same organizational structure bucket, receive only 10% of their invoices electronically – slowing potential automation enablement.

*IOFM has found that comparing AP functions based on the extent to which they receive invoices electronically is a good proxy for automation maturity for two reasons. 1) The more invoices received electronically, the more automation can be enabled; and, 2) e-invoicing tends to be one of the first processes addressed when investing in automation.*

# IS YOUR AP PERFORMANCE TOP TIER?

## HOW TO USE KEY METRICS TO CHART YOUR AP IMPROVEMENT JOURNEY

The two figures below illustrate the corresponding stair-step correlation between the two tracks: centralization and automation. Figure 5 illustrates top quartile and median automation enablement levels at each stage of centralization. Figure 6 provides a more detailed comparison.

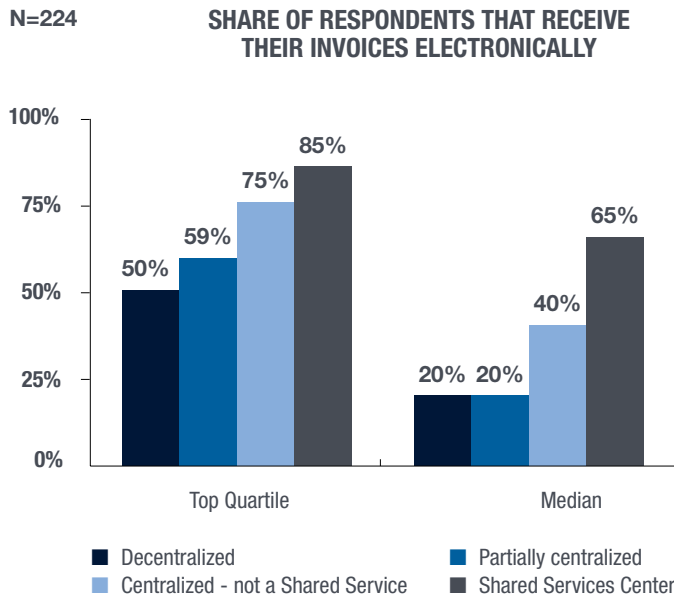


FIGURE 5. CORRELATION BETWEEN CENTRALIZATION AND AUTOMATION, TOP PERFORMERS

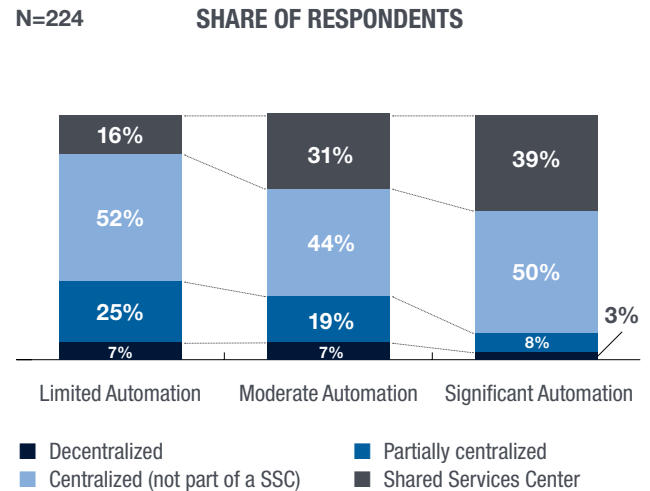


FIGURE 6. CORRELATION BETWEEN CENTRALIZATION AND AUTOMATION

PEER GROUP	PERFORMANCE SPLIT	SHARE OF INVOICES RECEIVED ELECTRONICALLY
DECENTRALIZED	Average	29%
	Top Quartile	50%
	Median	20%
	Bottom Quartile	5%
PARTIALLY CENTRALIZED	Average	30%
	Top Quartile	59%
	Median	20%
	Bottom Quartile	2%
CENTRALIZED, NOT PART OF A SHARED SERVICE	Average	43%
	Top Quartile	75%
	Median	40%
	Bottom Quartile	10%
SHARED SERVICE	Average	56%
	Top Quartile	85%
	Median	65%
	Bottom Quartile	25%

N=224

FIGURE 7. CORRELATION BETWEEN CENTRALIZATION AND AUTOMATION, BY PERFORMANCE

# IS YOUR AP PERFORMANCE TOP TIER?

## HOW TO USE KEY METRICS TO CHART YOUR AP IMPROVEMENT JOURNEY

### CAPTURING EARLY PAY DISCOUNTS

The easiest way to know if your AP function is operating at a high level is to determine whether you're successfully capturing early-pay discounts. This section will evaluate three keys to consider:

1. Potential – Share of invoices offering an early pay discount
2. Opportunity – Typical percent discount offered
3. Results – Share of discounts captured

*Spoiler alert: There's a huge untapped opportunity here for many AP functions.*

### POTENTIAL FOR EARLY DISCOUNTS

The first question is: How big is the potential for savings by improving your processing time and capturing early-pay discounts? For most organizations, the opportunity resides in a relatively small number of invoices (5% or less). However, it should be noted that this number could potentially be larger if procurement had greater confidence that early payments could be made consistently.

SHARE OF INVOICES OFFERING DISCOUNTS	DECENTRALIZED	PARTIALLY CENTRALIZED	CENTRALIZED, NOT PART OF A SHARED SERVICE	SHARED SERVICE
<b>SHARE OF RESPONDENTS</b>				
<b>0%</b>	7%	15%	15%	12%
<b>1-5%</b>	64%	59%	47%	51%
<b>6-10%</b>	14%	8%	14%	8%
<b>11-15%</b>	0%	5%	8%	7%
<b>16-20%</b>	0%	10%	7%	5%
<b>21-25%</b>	0%	0%	4%	7%
<b>More than 25%</b>	14%	3%	6%	10%

FIGURE 8. SHARE OF INVOICES OFFERING DISCOUNTS, SPLIT BY STRUCTURE

SHARE OF INVOICES OFFERING DISCOUNTS	LIMITED AUTOMATION	MODERATE AUTOMATON	SIGNIFICANT AUTOMATION
<b>SHARE OF RESPONDENTS</b>			
<b>0%</b>	15%	9%	16%
<b>1-5%</b>	52%	47%	55%
<b>6-10%</b>	12%	15%	8%
<b>11-15%</b>	9%	6%	5%
<b>16-20%</b>	6%	12%	2%
<b>21-25%</b>	2%	3%	6%
<b>More than 25%</b>	5%	9%	7%

FIGURE 9. SHARE OF INVOICES OFFERING DISCOUNTS, SPLIT BY AUTOMATION

# IS YOUR AP PERFORMANCE TOP TIER?

## HOW TO USE KEY METRICS TO CHART YOUR AP IMPROVEMENT JOURNEY

### OPPORTUNITY FOR EARLY DISCOUNTS

The second question is: How big is the opportunity for savings? For most organizations, the opportunity is about 2% of a typical invoice. So, the significance of the opportunity is dependent on the size of your typical invoices and total spend.

PEER GROUP	PERFORMANCE SPLIT	SHARE OF INVOICES RECEIVED ELECTRONICALLY
<b>DECENTRALIZED</b>	Average	2%
	Top Quartile	2%
	Median	2%
	Bottom Quartile	1%
<b>PARTIALLY CENTRALIZED</b>	Average	2%
	Top Quartile	2%
	Median	2%
	Bottom Quartile	1%
<b>CENTRALIZED, BUT NOT PART OF A SHARED SERVICE AVERAGE</b>	Average	2%
	Top Quartile	2%
	Median	2%
	Bottom Quartile	1%
<b>SHARED SERVICE AVERAGE</b>	Average	2%
	Top Quartile	2%
	Median	2%
	Bottom Quartile	1%

N=180

FIGURE 10. TYPICAL SIZE OF DISCOUNT, SPLIT BY STRUCTURE

PEER GROUP	PERFORMANCE SPLIT	SIZE OF DISCOUNT
<b>LIMITED AUTOMATION</b>	Average	2%
	Top Quartile	2%
	Median	2%
	Bottom Quartile	1%
<b>MODERATE AUTOMATION</b>	Average	2%
	Top Quartile	2%
	Median	2%
	Bottom Quartile	1%
<b>SIGNIFICANT AUTOMATION</b>	Average	2%
	Top Quartile	2%
	Median	2%
	Bottom Quartile	1%

N=182

FIGURE 11. TYPICAL SIZE OF DISCOUNT, SPLIT BY AUTOMATION

# IS YOUR AP PERFORMANCE TOP TIER?

## HOW TO USE KEY METRICS TO CHART YOUR AP IMPROVEMENT JOURNEY

### SHARE OF DISCOUNTS CAPTURED

The third question is: How often are you able to capture discounts? And this is where there are significant opportunities for many AP departments. While top performers (who report capturing between 85% and 95% of opportunities) are doing an impressive job, the majority of AP departments have a lot of room for improvement — especially those that are the least centralized and are the least automated.

(Note: For this question in particular, quartiles are more accurate indicators than averages, which are artificially low due to a number of organizations reporting very low capture rates.)

PEER GROUP	PERFORMANCE SPLIT	SHARE OF DISCOUNTS CAPTURED
DECENTRALIZED	Average	33.4%
	Top Quartile	84.8%
	Median	4.0%
	Bottom Quartile	0.8%
PARTIALLY CENTRALIZED	Average	57.4%
	Top Quartile	90.0%
	Median	60.0%
	Bottom Quartile	36.5%
CENTRALIZED, NOT PART OF A SHARED SERVICE	Average	65.7%
	Top Quartile	95.0%
	Median	85.0%
	Bottom Quartile	40.0%
SHARED SERVICE AVERAGE	Average	66.3%
	Top Quartile	94.0%
	Median	90.0%
	Bottom Quartile	39.5%

N=147

FIGURE 12. SHARE OF DISCOUNTS CAPTURED, SPLIT BY STRUCTURE

PEER GROUP	PERFORMANCE SPLIT	SHARE OF DISCOUNTS CAPTURED
LIMITED AUTOMATION	Average	52.9%
	Top Quartile	90.0%
	Median	55.0%
	Bottom Quartile	3.5%
MODERATE AUTOMATION	Average	58.5%
	Top Quartile	93.5%
	Median	80.0%
	Bottom Quartile	5.0%
SIGNIFICANT AUTOMATION	Average	74.2%
	Top Quartile	96.5%
	Median	91.0%
	Bottom Quartile	75.0%

N=147

FIGURE 13. SHARE OF DISCOUNTS CAPTURED, SPLIT BY AUTOMATION

# IS YOUR AP PERFORMANCE TOP TIER?

## HOW TO USE KEY METRICS TO CHART YOUR AP IMPROVEMENT JOURNEY

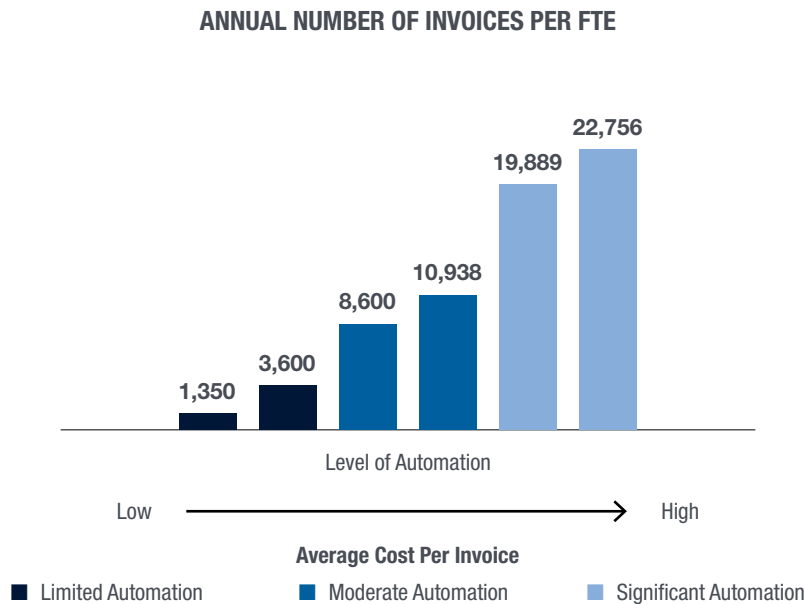
### EFFICIENCY: HOW FAST IS YOUR PROCESS?

The top concern among AP leaders is speed. Departments are being pressured to do more with less. So how do you know if you're operating as efficiently as you should? The first metric to consider is the number of invoices per FTE (calculated by dividing the total number of invoices by your total headcount).

### INVOICES PER FTE

One of the most common questions we get at the Institute of Finance & Management is, "Am I over or understaffed?" One way to answer that question is to look at the number of invoices you're being asked to process.

The more decentralized you are, the harder it is to process invoices quickly. Similarly, the lack of automation can hinder your speed. With significant automation (in which at least 70% of your invoices are received electronically, enabling workflow automation), a single professional can process almost 23,000 invoices annually. But when the vast majority of invoices are paper, even the best organizations struggle to hit one-quarter of that number.



# IS YOUR AP PERFORMANCE TOP TIER?

## HOW TO USE KEY METRICS TO CHART YOUR AP IMPROVEMENT JOURNEY

PEER GROUP	PERFORMANCE SPLIT	ANNUAL NUMBER OF INVOICES PER FTE
<b>DECENTRALIZED</b>	Average	1,597
	Top Quartile	2,238
	Median	1,597
	Bottom Quartile	957
<b>PARTIALLY CENTRALIZED</b>	Average	12,844
	Top Quartile	13,810
	Median	7,822
	Bottom Quartile	4,591
<b>CENTRALIZED, NOT PART OF A SHARED SERVICE</b>	Average	12,424
	Top Quartile	13,500
	Median	8,600
	Bottom Quartile	3,600
<b>SHARED SERVICE AVERAGE</b>	Average	26,564
	Top Quartile	31,190
	Median	14,300
	Bottom Quartile	5,714

**N=147**

FIGURE 14. ANNUAL NUMBER OF INVOICES PER FTE, DETAILED PEER GROUP ANALYSIS, SPLIT BY STRUCTURE

PEER GROUP	PERFORMANCE SPLIT	ANNUAL NUMBER OF INVOICES PER FTE
<b>LIMITED AUTOMATION</b>	Top Quartile	8,600
	Median	3,600
	Bottom Quartile	1,350
<b>MODERATE AUTOMATION</b>	Top Quartile	19,889
	Median	10,938
	Bottom Quartile	5,506
<b>SIGNIFICANT AUTOMATION</b>	Top Quartile	22,756
	Median	9,887
	Bottom Quartile	4,813

**N=83**

FIGURE 15. INVOICES PER FTE, SPLIT BY AUTOMATION

# IS YOUR AP PERFORMANCE TOP TIER?

## HOW TO USE KEY METRICS TO CHART YOUR AP IMPROVEMENT JOURNEY

### PAID ON TIME

Once an organization has a critical mass of invoices to process, automation enables on-time payments. Approximately 29% of respondents with significant automation report paying their non-PO invoices on time at least 96% of the time – compared with only 13% of those with only moderate automation.

Decentralized functions, and those with limited automation, tend to have relatively high “paid on-time” rates. However, this can largely be attributed to the relatively low number of invoices – groups that, on average, receive less than 45,000 invoices annually. (All other respondents average more than 265,000 invoices annually.)

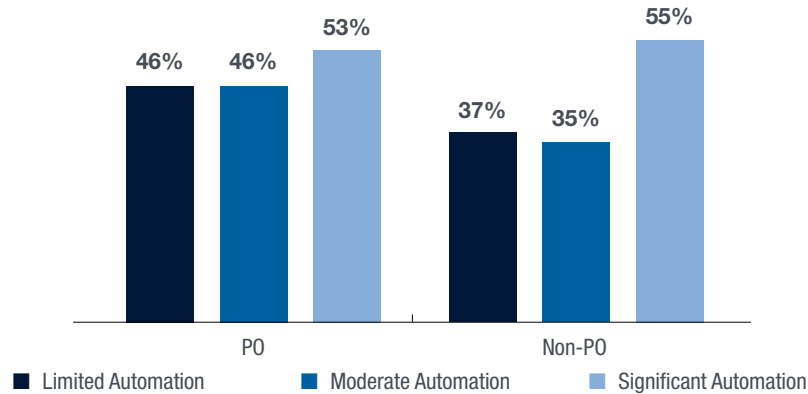


FIGURE 16. SHARE WHO PAY > 90% OF THEIR INVOICES ON TIME, SPLIT BY AUTOMATION

PAID ON TIME FREQUENCY — PO	DECENTRALIZED	PARTIALLY CENTRALIZED	CENTRALIZED, NOT PART OF A SHARED SERVICE	SHARED SERVICE
<b>SHARE OF RESPONDENTS</b>				
<b>Less than 50%</b>	8%	3%	5%	3%
<b>50%-75%</b>	8%	10%	12%	8%
<b>76%-80%</b>	8%	18%	5%	19%
<b>81%-85%</b>	15%	5%	12%	5%
<b>86%-90%</b>	8%	15%	16%	19%
<b>91%-95%</b>	8%	21%	29%	24%
<b>96%-99%</b>	46%	23%	18%	21%
<b>100%</b>	0%	5%	4%	0%

N= 227

FIGURE 17. PAID ON TIME (PO), SPLIT BY STRUCTURE



# IS YOUR AP PERFORMANCE TOP TIER?

## HOW TO USE KEY METRICS TO CHART YOUR AP IMPROVEMENT JOURNEY

PAID ON TIME FREQUENCY — PO	LIMITED AUTOMATION	MODERATE AUTOMATON	SIGNIFICANT AUTOMATION
<b>SHARE OF RESPONDENTS</b>			
<b>Less than 50%</b>	7%	0%	4%
<b>50%-75%</b>	13%	9%	9%
<b>76%-80%</b>	12%	11%	11%
<b>81%-85%</b>	10%	8%	10%
<b>86%-90%</b>	12%	27%	12%
<b>91%-95%</b>	17%	29%	27%
<b>96%-99%</b>	26%	15%	23%
<b>100%</b>	3%	2%	3%

N= 227

FIGURE 18. PAID ON TIME (PO), SPLIT BY AUTOMATION

PAID ON TIME FREQUENCY — PO	DECENTRALIZED	PARTIALLY CENTRALIZED	CENTRALIZED, NOT PART OF A SHARED SERVICE	SHARED SERVICE
<b>SHARE OF RESPONDENTS</b>				
<b>Less than 50%</b>	13%	13%	8%	11%
<b>50%-75%</b>	27%	8%	14%	15%
<b>76%-80%</b>	0%	24%	7%	6%
<b>81%-85%</b>	0%	11%	9%	15%
<b>86%-90%</b>	13%	11%	14%	18%
<b>91%-95%</b>	33%	16%	25%	13%
<b>96%-99%</b>	13%	16%	19%	18%
<b>100%</b>	0%	3%	4%	5%

N= 233

FIGURE 19. PAID ON TIME (NON-PO), SPLIT BY STRUCTURE

# IS YOUR AP PERFORMANCE TOP TIER?

## HOW TO USE KEY METRICS TO CHART YOUR AP IMPROVEMENT JOURNEY

### COST PER INVOICE

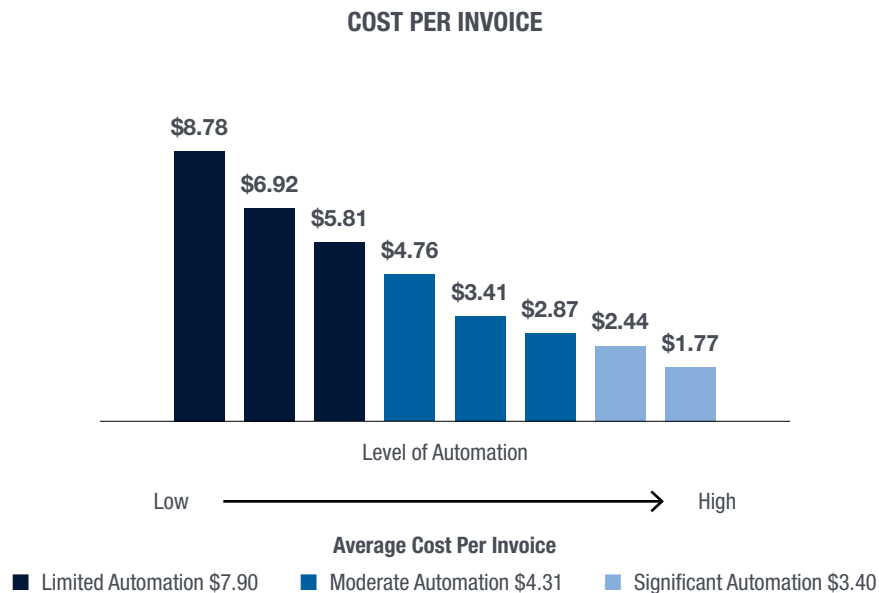
A third way to calculate your AP efficiency is by determining how much it cost to pay each invoice.

IOFM calculated this measure by dividing each practice's total labor cost by the total number of invoices processed. While this number does not include all expenses – overhead, automation expenses, etc. – we've found that a simple calculation allows for more consistent apples-to-apples comparisons to other AP functions.

The two variables of this metric were answered by a total of 29 respondents in our sample, making it difficult to divide the data in meaningful ways and retain a statistically-significant sample.

We do feel comfortable standing behind two cuts:

1. Cost savings can be significant. Overall, there's a three-fold difference between top and bottom performers.
2. Automation can help drive down costs. The worst-performing functions with significant automation are more efficient than the top performing AP groups with limited automation.



# IS YOUR AP PERFORMANCE TOP TIER?

## HOW TO USE KEY METRICS TO CHART YOUR AP IMPROVEMENT JOURNEY

PAID ON TIME FREQUENCY — PO	LIMITED AUTOMATION	MODERATE AUTOMATON	SIGNIFICANT AUTOMATION
<b>SHARE OF RESPONDENTS</b>			
<b>Less than 50%</b>	14%	6%	13%
<b>50%-75%</b>	16%	22%	6%
<b>76%-80%</b>	6%	16%	7%
<b>81%-85%</b>	14%	7%	7%
<b>86%-90%</b>	13%	14%	12%
<b>91%-95%</b>	14%	22%	26%
<b>96%-99%</b>	19%	12%	22%
<b>100%</b>	4%	1%	7%

N= 233

FIGURE 20. PAID ON TIME (NON-PO), SPLIT BY AUTOMATION

PEER GROUP	PERFORMANCE SPLIT	COST PER INVOICE
<b>ALL RESPONDENTS</b>	Average	\$5.97
	Top Quartile	\$2.44
	Median	\$3.11
	Bottom Quartile	\$7.20

N= 29

FIGURE 21. COST PER INVOICE, OVERALL

PEER GROUP	PERFORMANCE SPLIT	COST PER INVOICE
<b>LIMITED AUTOMATION</b>	Average	\$7.90
	Top Quartile	\$5.81
	Median	\$6.92
	Bottom Quartile	\$8.78
<b>MODERATE AUTOMATION</b>	Average	\$4.31
	Top Quartile	\$2.87
	Median	\$3.41
	Bottom Quartile	\$4.76
<b>SIGNIFICANT AUTOMATION</b>	Average	\$3.40
	Top Quartile	\$1.77
	Median	\$2.44
	Bottom Quartile	\$5.54

N=27

FIGURE 22. COST PER INVOICE, SPLIT BY AUTOMATION

# IS YOUR AP PERFORMANCE TOP TIER?

## HOW TO USE KEY METRICS TO CHART YOUR AP IMPROVEMENT JOURNEY

### STAFF LEVERAGE RATIOS

While “Cost Per Invoice” can help you determine if you’re over/under staffed, it’s also important to know if you’re staffed with the right roles.

There’s no right or wrong staff mix, thus the lack of quartile analysis for this metric. The key is to make sure that your ratio of senior talent to junior talent is in line with your peer groups below. Generally, the more mature your AP function, the steeper the pyramid.

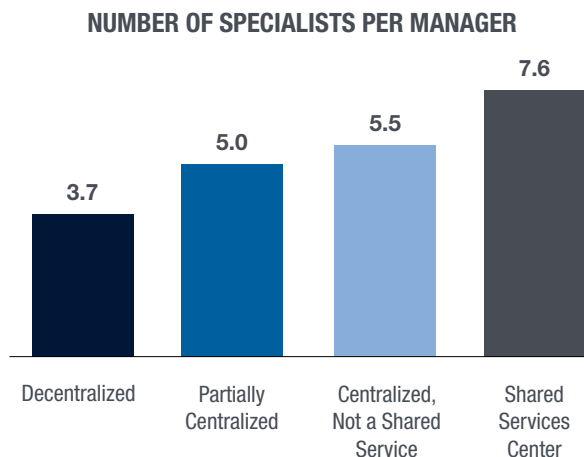


FIGURE 23. MANAGER TO SPECIALIST RATIO, SPLIT BY STRUCTURE

PEER GROUP	LEAD/SHARED SERVICES LEADER	DIRECTOR	MANAGER	SPECIALIST/ AP PROCESSOR	OTHER (MAIL ROOM, VENDOR MASTER, CUSTOMER SERVICE AND AUDIT)
<b>SHARE OF RESPONDENTS</b>					
<b>DECENTRALIZED</b>	0%	2%	17%	65%	15%
<b>PARTIALLY CENTRALIZED</b>	5%	3%	12%	58%	22%
<b>CENTRALIZED, NOT A SHARED SERVICE GROUP</b>	2%	4%	12%	67%	15%
<b>SHARED SERVICE GROUP</b>	7%	2%	9%	65%	17%

N=229

FIGURE 24. STAFF RATIOS, SPLIT BY STRUCTURE

PEER GROUP	LEAD/SHARED SERVICES LEADER	DIRECTOR	MANAGER	SPECIALIST/ AP PROCESSOR	OTHER (MAIL ROOM, VENDOR MASTER, CUSTOMER SERVICE AND AUDIT)
<b>SHARE OF RESPONDENTS</b>					
<b>LIMITED AUTOMATION</b>	5%	3%	10%	59%	23%
<b>MODERATE AUTOMATION</b>	5%	3%	11%	61%	19%
<b>SIGNIFICANT AUTOMATION</b>	6%	3%	10%	66%	15%

N=229

FIGURE 25. STAFF RATIOS, SPLIT BY AUTOMATON

# IS YOUR AP PERFORMANCE TOP TIER?

## HOW TO USE KEY METRICS TO CHART YOUR AP IMPROVEMENT JOURNEY

### EFFECTIVENESS: HOW GOOD IS YOUR PROCESS?

How fast you can process an invoice is only part of the goal of your performance improvement journey. How effective you are at processing is the counterbalance. It does you no good to process at a lightning pace if you're making errors, paying redundant invoices, etc.

This section will measure AP effectiveness across four metrics:

- PO first pass match rate
- Share of PO invoices with a mismatch
- Share of AP transactions requiring corrections
- Share of duplicate payments

Improving your effectiveness is much harder than improving efficiency. Increasing investment in automation can help you process invoices faster. However, improving your effectiveness – the quality of your process – requires maturing the relationship with procurement and the rest of the business. In the end, there's a natural cap on how much improvement AP can do alone.

### PO FIRST PASS MATCH RATE

The first step in ensuring a quality AP process is making sure the PO matches the invoice. The more often it does, the less room there is for error. However, the more invoices you're processing, the harder it is to maintain high levels of performance. Generally, top performers match their POs at least 90% of the time; bottom performers hit that mark closer to 70%.

PEER GROUP	PERFORMANCE SPLIT	PO FIRST PASS MATCH RATE
DECENTRALIZED	Average	85%
	Top Quartile	92%
	Median	85%
	Bottom Quartile	78%
PARTIALLY CENTRALIZED	Average	83%
	Top Quartile	95%
	Median	86%
	Bottom Quartile	75%
CENTRALIZED, BUT NOT PART OF A SHARED SERVICE	Average	81%
	Top Quartile	90%
	Median	80%
	Bottom Quartile	70%
SHARED SERVICE	Average	79%
	Top Quartile	87%
	Median	80%
	Bottom Quartile	70%

N=212

FIGURE 26. PO FIRST PASS MATCH RATE, BY STRUCTURE

PEER GROUP	PERFORMANCE SPLIT	PO FIRST PASS MATCH RATE
LIMITED AUTOMATION	Average	82%
	Top Quartile	95%
	Median	85%
	Bottom Quartile	72%
MODERATE AUTOMATION	Average	81%
	Top Quartile	90%
	Median	80%
	Bottom Quartile	75%
SIGNIFICANT AUTOMATION	Average	79%
	Top Quartile	90%
	Median	80%
	Bottom Quartile	70%

N=212

FIGURE 27. PO FIRST PASS MATCH RATE, BY STRUCTURE, SPLIT BY AUTOMATION

# IS YOUR AP PERFORMANCE TOP TIER?

## HOW TO USE KEY METRICS TO CHART YOUR AP IMPROVEMENT JOURNEY

### SHARE OF PO INVOICES WITH A MISMATCH

To further measure against PO first pass match rate, it's important to know what percentage of PO invoices those mismatches represent. Below, we share the distribution of PO mismatches.

SHARE OF PO INVOICES	DECENTRALIZED	PARTIALLY CENTRALIZED	CENTRALIZED, NOT PART OF A SHARED SERVICE SHARED SERVICE	SHARED SERVICE
<b>SHARE OF RESPONDENTS</b>				
<b>0%</b>	13%	0%	7%	<b>4%</b>
<b>1%-10%</b>	58%	50%	55%	<b>48%</b>
<b>11%-20%</b>	4%	20%	14%	<b>24%</b>
<b>21%-30%</b>	17%	20%	11%	<b>12%</b>
<b>31%-40%</b>	0%	0%	2%	<b>8%</b>
<b>41%-50%</b>	4%	0%	2%	<b>0%</b>
<b>More than 50%</b>	4%	10%	9%	<b>4%</b>

N= 233

FIGURE 28. SHARE OF PO INVOICES WITH A MISMATCH, SPLIT BY STRUCTURE

PAID ON TIME FREQUENCY – NON-PO	LIMITED AUTOMATION	MODERATE AUTOMATON	SIGNIFICANT AUTOMATION
<b>SHARE OF RESPONDENTS</b>			
<b>0%</b>	13%	3%	4%
<b>1%-10%</b>	58%	52%	40%
<b>11%-20%</b>	4%	21%	24%
<b>21%-30%</b>	17%	17%	8%
<b>31%-40%</b>	4%	0%	12%
<b>41%-50%</b>	4%	0%	0%
<b>More than 50%</b>	0%	7%	12%

FIGURE 29. SHARE OF PO INVOICES WITH A MISMATCH, BY STRUCTURE, SPLIT BY AUTOMATION

# IS YOUR AP PERFORMANCE TOP TIER?

## HOW TO USE KEY METRICS TO CHART YOUR AP IMPROVEMENT JOURNEY

### SHARE OF PO INVOICES REQUIRING CORRECTION

The third stage of measuring effectiveness is to determine the share of PO invoices requiring a correction. Top performers usually don't have to touch more than 2%-3%; however, bottom performers often have to correct one in 10 PO invoices. This not only slows down the process, but also invites errors.

PEER GROUP	PERFORMANCE SPLIT	SHARE OF PO INVOICES REQUIRING CORRECTION
DECENTRALIZED	Average	6%
	Top Quartile	3%
	Median	5%
	Bottom Quartile	10%
PARTIALLY CENTRALIZED	Average	6%
	Top Quartile	2%
	Median	3%
	Bottom Quartile	10%
CENTRALIZED, BUT NOT PART OF A SHARED SERVICE	Average	7%
	Top Quartile	2%
	Median	5%
	Bottom Quartile	10%
SHARED SERVICE	Average	6%
	Top Quartile	2%
	Median	5%
	Bottom Quartile	10%

N=212

FIGURE 30. SHARE OF PO INVOICES REQUIRING A CORRECTION, SPLIT BY STRUCTURE

PEER GROUP	PERFORMANCE SPLIT	SHARE OF PO INVOICES REQUIRING CORRECTION
LIMITED AUTOMATION	Average	6%
	Top Quartile	2%
	Median	3%
	Bottom Quartile	10%
MODERATE AUTOMATION	Average	9%
	Top Quartile	3%
	Median	8%
	Bottom Quartile	15%
SIGNIFICANT AUTOMATION	Average	8%
	Top Quartile	1%
	Median	5%
	Bottom Quartile	10%

N=212

FIGURE 31. SHARE OF PO INVOICES REQUIRING A CORRECTION, SPLIT BY AUTOMATION

# IS YOUR AP PERFORMANCE TOP TIER?

## HOW TO USE KEY METRICS TO CHART YOUR AP IMPROVEMENT JOURNEY

### SHARE OF DUPLICATE PAYMENTS

The fourth stage of measuring effectiveness is to determine if your department is making duplicate payments.

Without slowing down the process to a halt, accidentally paying the same invoice twice is inevitable. But the goal is to limit the odds of redundant payments.

Most organizations make this error less than 1% of the time. Those with the most significant automation investment are most successful in reducing this risk.

SHARE OF PO INVOICES	DECENTRALIZED	PARTIALLY CENTRALIZED	CENTRALIZED, NOT PART OF A SHARED SERVICE SHARED SERVICE	SHARED SERVICE
<b>SHARE OF RESPONDENTS</b>				
<b>Less than 1%</b>	60%	63%	59%	<b>63%</b>
<b>1%-1.9%</b>	13%	24%	17%	<b>15%</b>
<b>2%-2.9%</b>	13%	5%	7%	<b>9%</b>
<b>3%-3.9%</b>	7%	5%	8%	<b>1%</b>
<b>4-4.9%</b>	0%	0%	3%	<b>3%</b>
<b>5% or more</b>	7%	3%	6%	<b>9%</b>

N= 233

FIGURE 32. SHARE OF DUPLICATE PAYMENTS, SPLIT BY STRUCTURE

SHARE OF PO INVOICES	LIMITED AUTOMATION	MODERATE AUTOMATON	SIGNIFICANT AUTOMATION
<b>SHARE OF RESPONDENTS</b>			
<b>Less than 1%</b>	61%	60%	66%
<b>1%-1.9%</b>	15%	15%	19%
<b>2%-2.9%</b>	10%	8%	5%
<b>3%-3.9%</b>	7%	4%	3%
<b>4-4.9%</b>	4%	1%	1%
<b>5% or more</b>	1%	11%	5%

N= 233

FIGURE 33. SHARE OF DUPLICATE PAYMENTS, SPLIT BY AUTOMATION



# IS YOUR AP PERFORMANCE TOP TIER?

## HOW TO USE KEY METRICS TO CHART YOUR AP IMPROVEMENT JOURNEY

### APPENDIX

This section provides additional insights to help interpret the findings, specifically:

- Survey demographics
- Survey questions

### SURVEY DEMOGRAPHICS

The data was gathered from 248 AP leaders, via an online survey tool, between May 26, 2017 and June 16, 2017. The margin of error for these results is +/- 6% points at the 95% confidence level. That is, in 95 cases out of 100, the results may vary within a range of 6% points above or below the reported data.

Split by size, just over 42% of respondents' organizations generate \$1 billion in annual revenue.

Five industries accounted for 60% of the respondents to the survey. No other single industry (categorized below into "other") accounted for more than 5% of the overall sample.

Just over half of the respondents are AP managers – 87% are in AP leadership positions (leads, directors, managers, supervisors)

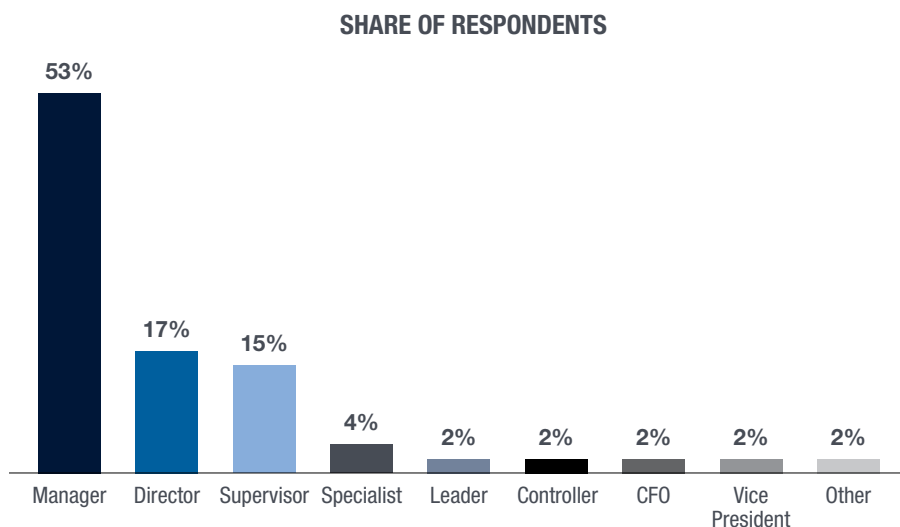


FIGURE 36. ROLE DISTRIBUTION OF RESPONDENTS

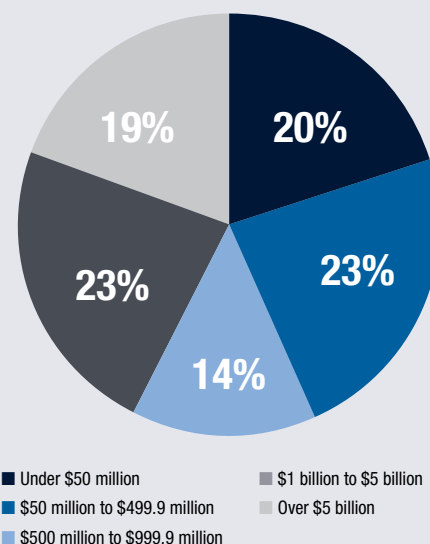


FIGURE 34. REVENUE SPLIT OF RESPONDENTS

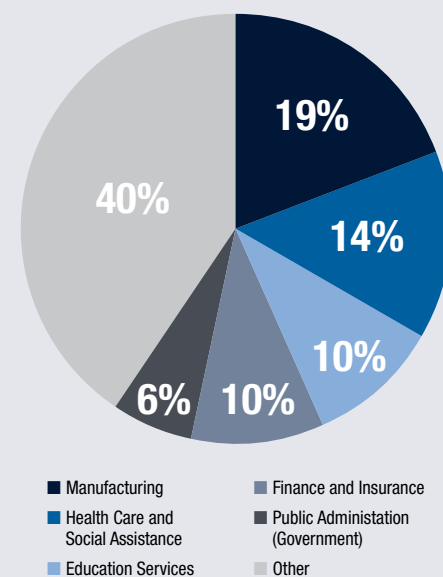


FIGURE 35. INDUSTRY SPLIT OF RESPONDENTS

## RELEVANT SURVEY QUESTIONS & DEFINITIONS

The following is a list of the survey questions and definitions used to gather the data in this report. We suggest referencing it when calculating your own data to ensure apples-to-apples comparisons to the benchmarks provided.

## EFFICIENCY MEASURES

### Invoices Per FTE

This metric was calculated.

- First, the number of invoices were totaled. (Respondents provided the number of PO, non-PO, invoice/check requests, and “other” invoices).
- Second, the number of FTEs were totaled. (Respondents provided the number of shared service leads, AP directors, AP managers, AP specialists/processors, and “other” — defined as: includes mail room, vendor master, customer service and audit).
- And then those two totals were divided by each other.

### Paid on Time Rate

Respondents were asked to identify the range that best represents their organization’s “Paid On Time Rate,” from date of invoice to ready-to-pay.

### Cost Per Invoice

This metric was calculated.

- First, the number of invoices was totaled. (Respondents provided the number of PO, non-PO, invoice/check requests, and “other” invoices).
- And then we divided that number by the total labor cost (defined as: approximate annual cost of labor across all AP departments — salary and wages only, not benefit costs).

### Staff Leverage Ratio

- Respondents provided the number of shared service leads, AP directors, AP managers, AP specialists/processors, and “other” — defined as: includes mail room, vendor master, customer service and audit.
- The ratio was calculated by summing the total of each staff level and then reporting it as a percentage of the total.
- Manager-to-specialist ratio is simply the total number of reported managers divided by the total number of specialists/processors within each peer group.

## **EFFECTIVENESS MEASURES**

### **PO First Pass Match Rate**

- Respondents were asked: “Thinking about your AP department’s ‘PO Invoices’ processed during the most recent fiscal year, approximately what percent were successfully matched to the PO on the first attempt?”

### **Share of PO Invoices With a Mismatch**

- Respondents were asked: “What percent of your PO invoices have a mis-match on the first pass?”

### **Share of AP Transactions Requiring Corrections**

- Respondents were asked: “Among your annual volume of AP transactions, approximately what percent requires any type of correction after the transaction has been processed?”

### **Share of Duplicate Payments**

- Respondents were asked: “Among your organization’s payments over a fiscal year period, approximately what percent are duplicates?”

---

# ABOUT THE INSTITUTE OF FINANCE & MANAGEMENT

Accounting and finance professions have each undergone nothing short of a complete transformation since the Institute of Finance & Management (IOFM) was founded in 1982. Since then, our mission has been, and continues to be, to align the resources, events, certifications, and networking opportunities we offer with what companies need from the accounting and finance functions to deliver market leadership. IOFM empowers accounting and finance professionals to maximize the strategic value they offer their employers.

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 providing key tax and compliance resources for global and shared services professionals, controllers, and their finance and administration (F&A) teams.

---