Ardent | Partners
SUPPLY MANAGEMENT EXPERTS

ePayables 2016:

Eyes on the Prize

Underwritten, in part, by:

Lexmark™
Enterprise Software

Andrew Bartolini, Chief Research Officer
Matthew Delman, Senior Payables Researcher
Ardent Partners
June 2016

REPORT SPONSORSHIP

The views and opinions in this report represent those of Ardent Partners at the time of publication. Sponsoring companies have had no measurable influence on the content and research in this report. The contents of this research report are the exclusive property of Ardent Partners. Please direct any comments or questions regarding our research sponsorship policy to Ardent's Chief Research Officer, Andrew Bartolini, at abartolini@ardentpartners.com and/or 617.752.1620.

Sponsor:

Lexmark Enterprise Software

Kofax, Perceptive Software and ReadSoft have come together under one Lexmark brand. This powerful combination of intelligent capture, process management, content management, enterprise search, and integration products offers the only fully integrated, scalable solution for end-to-end financial process automation—enhancing the value and efficiency of your existing enterprise applications by accelerating processing, reducing costs, eliminating errors and increasing visibility.

With service across 170 countries, Lexmark Enterprise Software is a global market leader serving the unique challenges of large, complex and decentralized organizations, and helping thousands of customers worldwide automate their financial operations across accounts payable, requisition processing, sales order processing, payment advice processing and more.

For more information, visit www.lexmark.com/finance

ePayables 2016: Eyes on the Prize

In 2016, many accounts payable ("AP") teams are positioned to move beyond providing value to the enterprise based solely upon increasing efficiencies and transform the function into a thriving intelligence hub for the business at large. These leading AP teams have their "eyes on the prize" and must now strive to become strategic partners that can showcase their importance and make an impact at the highest level of business operations.

For more than a decade, the research published by Ardent Partners' analysts has shown that transforming the AP function into a vital component of the organization is both possible and advisable. In this time, advances in AP technology combined with the growing sophistication of AP leaders has helped to create greater awareness of the strategic value that a well-executed AP transformation initiative can deliver. AP teams interested in moving to a higher level of performance must garner the support of their functional partners in procurement and treasury and work collaboratively to change the perception of AP as a back-office team focused on invoice processing into that of a vital function that can support the strategic objectives of the enterprise.

This report presents a comprehensive, industry-wide view into what is happening in the world of AP and captures the experience, performance, perspectives, and intentions of 184 AP, finance, and P2P professionals. The report also includes benchmarks, recommendations, and analysis that AP teams can use to better understand the state of accounts payable today, gain insight into best practices, benchmark their performance against the Best-in-Class, and ultimately improve their operations and performance.

REPORT OVERVIEW

This annual research report is organized into the following chapters:

Chapter One – The State of AP: This chapter looks at the current state in the evolution of the role of the accounts payable function and its level of engagement and alignment within the enterprise today as well as the motivations and internal and external drivers that shape AP leaders' priorities and plans this year and beyond.

Chapter Two – The State of ePayables: This chapter offers an assessment of the extent to which accounts payable organizations leverage ePayables (AP automation) solutions to improve performance while also detailing the different areas within the enterprise that see and feel AP's impact.

Chapter Three – Best-in-Class Performance: This chapter provides accounts payable performance and operational benchmark statistics along with a profile of Best-in-Class performers and their distinguishing characteristics and strategies.

Chapter Four – Strategies for Success: This chapter presents a series of recommended strategies and approaches for finance and accounts payable leaders and their departments who seek to improve their operations and their results.

Table of Contents

Chapter One: The State of Accounts Payable

"The fight is won or lost far away from witnesses – behind the lines, in the gym, and out there on the road, long before I dance under those lights." **– Muhammad Ali**

Perception is Reality: Rebuilding the AP Brand

In the 1970s, chronic underdog Pepsi famously launched the "Pepsi Challenge," which asked people to compare Pepsi to Coke in a single, blind taste test. The results showed that more people preferred Pepsi than Coke and it appeared that the second-place Pepsi was onto something. Nonetheless, when the two sodas were tested in branded, open taste tests, Coke was the clear favorite. On taste alone, Pepsi was deemed the superior product; but, when consumers had more information at hand, including the name and packaging, Coke, the longstanding market leader, was chosen. This marketing experiment shows that branding is important and that, for many, perception *is* reality.

The reality for most accounts payable ("AP") departments in 2016 is that although the industry is in the midst of a broad-based transformation, the general perception of the AP function significantly lags recent industry advances. To accomplish a true business process transformation, AP departments must transform the way they think as much as they transform their processes and systems. They must also work to aggressively change how they are perceived within the enterprise. After all, in the world of AP, perception is reality.

There has been movement and the industry has momentum. Perceptions of accounts payable *are* slowly changing inside the business, and the AP teams spearheading this shift are the ones that have aligned department goals with business priorities while also driving greater efficiencies and value. This is no easy feat, as many other departments within the enterprise, as well as the executive leadership, can have entrenched perceptions that are difficult to overcome.

Despite significant industry advances over the past decade, the typical AP team still suffers from a perception problem – where its organizational importance is almost solely related to invoice processing efficiency. As a result, AP has historically been passed over for resource and enhancement investments. But this is changing, and will continue to change, as more and more AP teams are now positioned to capture their rightful place in the enterprise. Perceptions among key stakeholders are shifting, and new technologies have arisen in the past decade to make streamlining operations more feasible than ever before. In light of these twin shifts, it is more important than ever that AP keeps its "eyes on the prize" and pushes to deliver results that have a direct impact on strategic operations and results

The traditional view (or perception) of AP is not without merit, as many AP teams have remained content to emphasize tactical execution at the expense of driving strategic value. These tactically-focused AP teams do themselves and their enterprises a disservice, however, since leading AP departments have shown that transforming AP is a wholly worthwhile venture that can deliver both strategic and bottom line value. Despite myriad obstacles (more on this in Chapter Two), the AP teams that stay focused on their goals, whether that is greater process automation or deeper insight into data, can achieve the "prize" of increased strategic value.

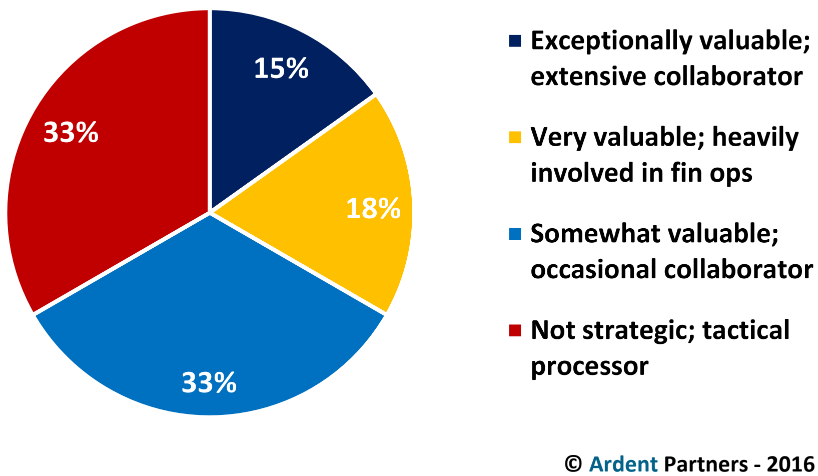
Recognition is the First Step

For many years, AP has been a candidate for enhancement and improvement – a function that, when improved, drives financial and operational value on a grand scale. And yet, it is only recently that enterprises have begun to view their AP unit as a strategically valuable business partner, worthy of involvement and engagement. AP in these forward-thinking organizations has surmounted the perception issue that the function labors under elsewhere; a perception issue that has resulted in a third of AP departments viewed as non-strategic nor strategically valuable (*see Figure 1, next page*).

While a third of enterprises do not view their AP team as strategic, considered valuable only in the context of processing invoices and scheduling supplier payments, the more important reality is that 67% of AP teams *are* viewed as having some or much strategic value. The largest single portion (34%) view AP as valuable only at a project level, collaborating occasionally with functional partners, but a further third (33%) involve AP in activities such as financial and operational planning. This is heartening for the viability of AP as a strategic partner, and means there will be a day when AP gains the proper recognition as a source of financial and operational value.

Top-performing AP departments are making a competitive difference and those teams have received attention as a source of value; the percentage of organizations that recognize this can only grow in the years ahead. AP is poised on the precipice of new importance; now it needs to work in order to capture it.

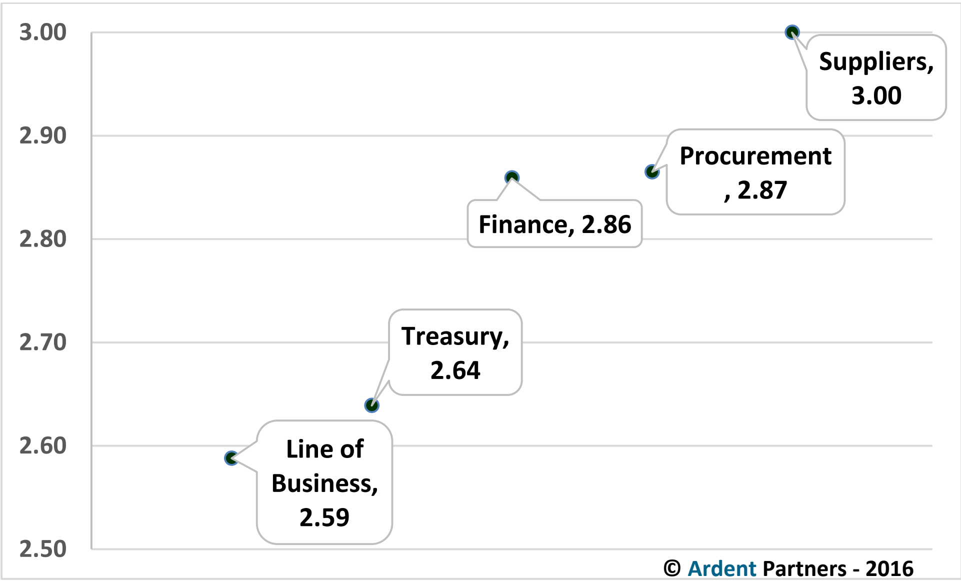
Figure 1: AP's Perceived Value



One way for an AP department to change perceptions is via direct engagement with stakeholders. Since collaboration with functional partners is no longer optional, AP has a great opportunity to become a strong partner and gain more visibility and influence via key partnerships with groups like procurement and treasury. Working more closely with stakeholders like procurement, finance, and treasury provides opportunities for AP to showcase the value of its financial and operational data. It is this collaboration that will inevitably lead to AP becoming a strategic business partner and change perceptions throughout the enterprise.

In this year's survey, respondents were asked to rate the quality of their AP department's collaboration with key stakeholders. The scores in Figure 2 below represent the average of all the scores provided by the participants in this research effort. Respondents used a 1-to-4 scale (1 is "little or no collaboration;" 4 is "heavily collaborative") to rate the level of collaboration between their AP department and other groups. That all five groups received ratings within a relatively tight band (2.59 to 3.0) indicates that AP's levels of collaboration are neither exceptional nor unsatisfactory and present a picture of a very "lukewarm" set of capabilities residing within the typical AP operation. Moreover, that the scores all fall squarely in the middle of the scale – between a "2" rating (project/task-based collaboration) and a "3" rating (moderately collaborative) – means that AP and other stakeholders tend to collaborate in an ad hoc, case-by-case basis as opposed to creating a tighter, more effective, linkage between partners.

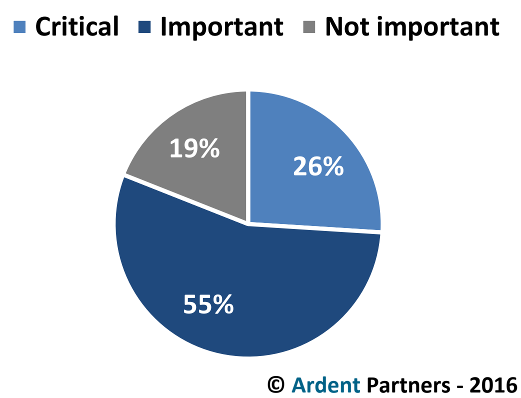
Figure 2: AP's Level of Collaboration (Scale 1 to 4)



The Value of AP's Data

The modern business world generates large data streams at nearly every level of the enterprise, from the executive suite all the way down to the manufacturing floor or out in the field. Enterprises that can harness the power of multiple data streams without getting soaked stand to benefit the most from the rich intelligence that data provides. This plethora of data is recognized as valuable by an increasing number of finance teams (*see Figure 3*), who understand and acknowledge the importance of data in the enterprise.

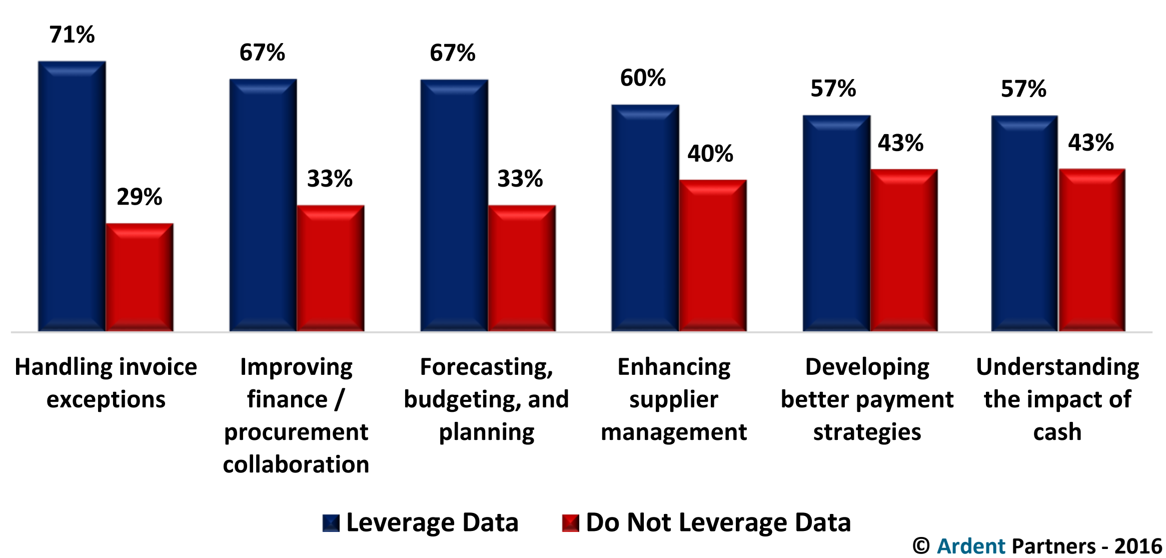
Figure 3: How Important is Data to Financial Operations?



Eighty-one (81%) percent of these groups identify their AP data as “critical” or “important” to their projects and programs, and the finance department uses the intelligence derived from data to support major tasks, important decision making, and to drive better performance at the department and enterprise level. AP data, on supplier invoices and upcoming supplier payments, for example, has applicability for other business units. Procurement can use AP data on supplier invoices to track contract compliance and drive supplier rationalization activities; treasury, meanwhile, can leverage AP’s data on upcoming supplier payments to create richer cash forecasts as well as develop more nuanced cash management strategies.

On the whole, the uses of AP’s data represent areas that impact strategic operations for the enterprise (*see Figure 4*); this is in line with the notion that an overwhelming majority of finance teams view data (and the resulting intelligence) as critical for decision-making. Handling invoice exceptions (71%), which tops the list of data uses, may seem tactical in nature, but the reality is that as AP becomes better at handling exceptions, the amount of time available for strategic activities increases. In last year’s edition of this annual report, ePayables 2015: Higher Ground, “improving exception handling and root cause analysis” was identified by finance and AP leaders as the top strategy to help AP rise to the next level of performance. Improved exception handling also leads to better data visibility, which further opens up the possibility of uses beyond the standard AP frame of influence.

Figure 4: Areas Impacted by AP Data and Intelligence



Enhanced collaboration between finance and procurement (67%) is one of these uses beyond AP's traditional domain. AP collects enormous amounts of financial and operational data, and the resulting intelligence can bolster procurement's supplier management work (where 60% of enterprises use AP data). Thus it is logical that AP data, and the resulting intelligence, would be used to enhance the collaborative relationship between these two groups. Similarly, using AP data in forecasting, budgeting, and planning (67%) presents the function's financial insights in an arena where AP traditionally does not have a foothold.

The high percentage of enterprises that leverage data is a heartening acknowledgement of the value that intelligence provides throughout the enterprise. The highest instance of organizations that *do not* use data (43%) appears only for payment strategies and understanding the impact of cash, which remains problematic. Enterprises that do not use data to understand the impact of cash remove potential insights that could drive improved results for the enterprise and increase the amount of cash for operations.

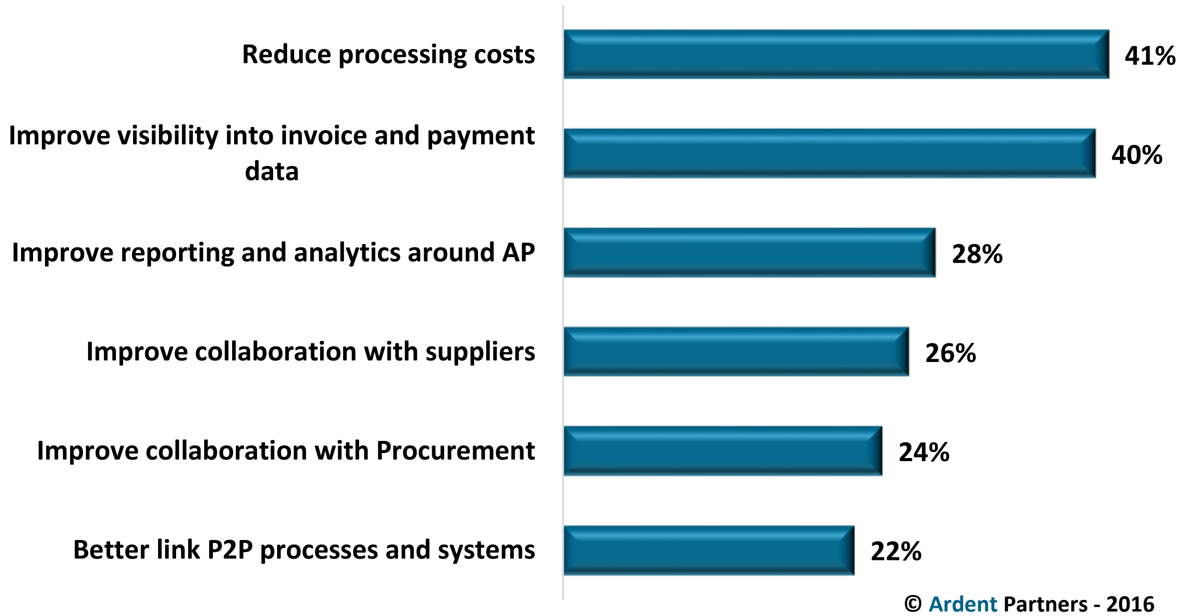
In 2016, AP, P2P, and cash management strategies that avoid or bypass data-driven logic and insight are anachronistic signs of an earlier time when AP was a back-office function, marginalized, irrelevant, and without standing. As broad-based usage of AP data increases, AP's standing and view within the enterprise will also rise. The proliferation of data in business requires analytics to be on the rise in AP and for AP leaders to have a data (and automation) plan.

Staying Focused: AP's Top Priorities in 2016

The drive to improve AP operations and expand upon the value that the function can deliver has accelerated in recent years with the emergence of technologies that can streamline invoice processing while also improving data visibility. This has resulted in AP having the ability to serve its original function (processing invoices in a seamless manner) as well as actively contributing value to key stakeholders in the form of financial and operational intelligence.

In 2016, AP leaders are focused on lowering costs, as well as driving more value from data and internal and external collaboration (*see Figure 5 below*). Reducing processing costs (41%) has consistently been a high priority for AP teams through the years and will remain so in the years to come. This is understandable, as cost reduction will always be emphasized when it comes to the highly competitive business world that AP supports. The next two priorities for AP in the year ahead, however, revolve around data and analytics. Prioritizing visibility into invoice and payment data (40%) is a clear sign that AP has recognized the value inherent in deepening its level of insight into its day-to-day operations. Other groups like treasury and procurement are also taking notice.

Figure 5: AP's Top Priorities in 2016

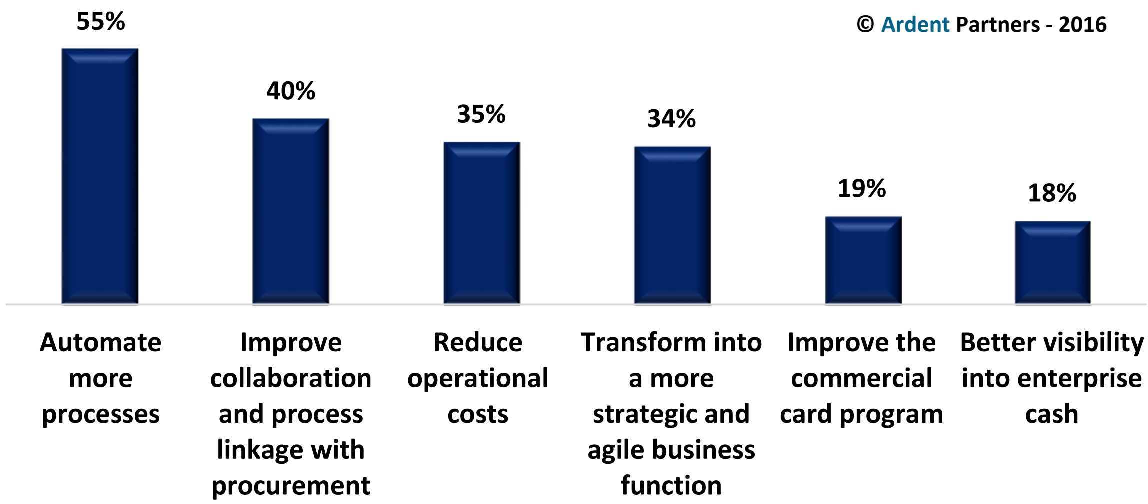


Data visibility alone is worthless without an ability to convert it into intelligence and value. For this reason, 28% of all AP groups have prioritized the improvement of reporting and analytics in 2016. Data is, and remains, hugely important to showing that AP has a value beyond processing invoices and payments. Increasing the ease with which AP can access and derive intelligence from data can also drive improvement around collaboration with suppliers (26%) and procurement (24%) – two groups that are key partners in validating AP's strategic value.

Moving Forward: AP's Goals for 2016-2017

Understanding AP's priorities, and how they align to enterprise objectives, is an important first step toward improving AP operations and altering perceptions of the AP team as a whole. Just as important as understanding priorities, however, is comprehending how those priorities can align to AP's goals over the next 24 months. In fact, it is the AP/finance leaders that are preparing for future business needs who will most likely firmly establish a powerful AP brand and expand their influence and impact over the next few years.

Figure 6: AP's Top Goals (Next 24 Months)



Automating more processes (55%) is a key component of most future AP programs, and for good reason. Automation creates scalable, repeatable processes that can result in cost savings and allow for deeper visibility into AP's data. In turn, this can lead to better data utilization for AP performance management as well as informing treasury's cash forecasts and procurement's sourcing and supplier management efforts. As time goes on, new AP technologies will make this transition more seamless and cost effective for more organizations.

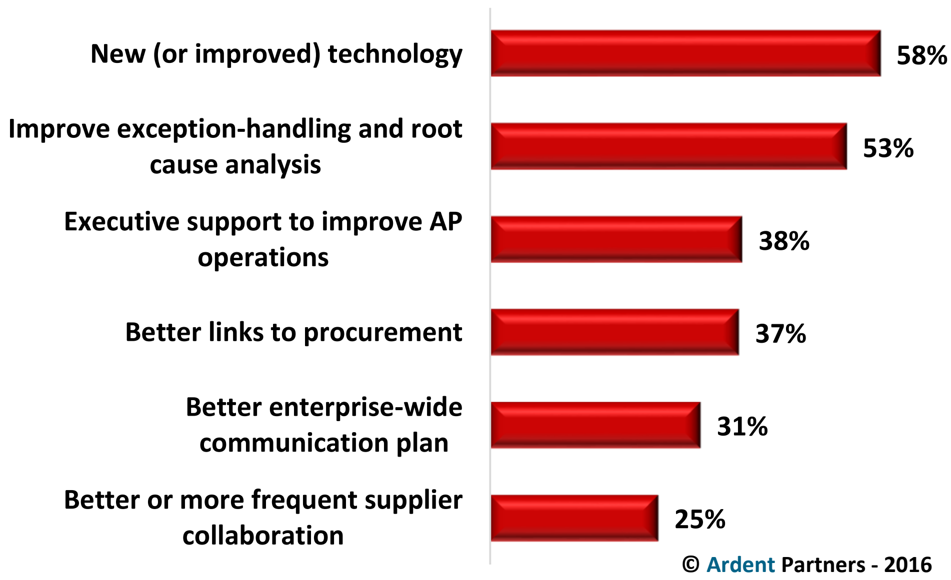
As always, increasing collaboration and process linkage between AP and procurement (40%) remains one of the top goals for forward-looking AP leaders. AP and procurement occupy the two sides of the procure-to-pay ("P2P") process, which many enterprises have not always considered a holistic workflow. That collaboration is a top goal for the year ahead is indicative of greater recognition that creating a tight linkage between AP and procurement can foster improved communication and deeper, more nuanced insights.

Making AP a more strategic and agile business function (34%) is a multi-step process that involves enlisting aid from numerous corners of the enterprise as well as a long-term strategy to move away from a tactical focus to a strategic one. That it is challenging does not, however, make it any less viable or vital. In fact, agility is a priority across many enterprises – not just in AP or finance. The agile enterprise is one that can swiftly address new and challenging problems that arise throughout operations, account for the risks in far-flung operational theaters, and is better able to adapt to changing business priorities and market conditions. As more AP teams become more agile and strategic, the function will push value far beyond its core activity of ensuring on-time approval and payment of supplier invoices.

Reaching the Prize: The Next Level of AP Performance

While it is important for AP leaders to keep their "eyes on the prize" of delivering more strategic value, much of the requisite transformation will require focusing on the strategies that can move AP to the next level of performance (*see Figure 7*). AP and finance leaders view the use of new or improved technology (58%) and improved exception handling and root cause analysis (53%) as the top two drivers that can push AP to the "next level." These are two key actions that, when applied as part of a plan to ultimately transform AP, can help AP ascend into a position of strategic value to the enterprise.

Figure 7: What Will It Take for AP to Reach the "Next Level?"



Technology may be the most critical requirement for moving AP to a higher level of performance, but *gaining* that technology necessitates taking a hard look at which groups AP can count as allies in the enterprise. It is for this reason that executive support to improve AP operations (38%) is so vital to transformation efforts. Even the savviest AP team, with the most comprehensive transformation plan, will not succeed in reaching the “next level” if its executive leadership does not see the value of investing in AP and then support its efforts once it has. Executives control the budgets for technology investment, which means that if AP cannot garner support among the C-suite for process automation, then even the most collaborative team will find its transformation efforts constrained and muted. Gaining executive support requires an ability to collaborate and communicate with functional partners who can then educate the executive ranks on the importance of AP automation.

Other factors that AP leaders can use to impact their current performance paradigms include:

- **Better links to procurement (37%),** which can result in AP gaining critical insight into contracts and negotiated discounts – two data sets that can improve AP’s matching and validation stages, as well as move the function closer to touchless invoice processing;
- **Better enterprise-wide communication plan (31%)**, which offers transparency across functional lines and can improve collaboration between internal partners, allowing for AP and other stakeholders to align on their goals; and
- **Better or more frequent supplier collaboration (25%),** which results in reduced invoice or payment status inquiries and improved exception handling. Collaborating more closely with suppliers can also result in driving improved results throughout the AP process through creating open and frequent lines of communication.

Chapter Two: The State of ePayables

"It isn't the mountains ahead to climb that wear you out; it's the pebble in your shoe."

- Muhammad Ali

Technology plays a key role in fostering the strategic importance of accounts payable. Without the right solutions in place or the executive support necessary to pursue the proper technology, AP is likely to remain relegated to the back office. Leading AP teams, on the other hand, have successfully made the case that AP can provide value far and above the efficient processing of supplier invoices. This chapter discusses ePayables, the term Ardent Partners uses to describe the solutions that automate some or all of the AP process.

AP departments have traditionally lagged other functional areas in their use of automation. Manual, paper-based AP processes can work for a business but they do not work "well enough" for a modern one. As a result, an increasing percentage of executives have started to take a hard look at their internal business processes in a bid to drive increased efficiencies and cost savings. This has, in turn, led to a greater focus on departments like accounts payable.

This is a positive step forward for the proliferation of AP automation solutions, as more executives in more enterprises put their support behind AP transformation initiatives designed to eliminate inefficient, manual activities from their day-to-day operations. Process automation will, in these conditions, inevitably replace most manual workflows over the course of the next decade and eventually place even the most entrenched manual AP process squarely in the crosshairs of a transformation initiative.

Take the First Step: The Ardent Partners ePayables Framework

Understanding the current state of the AP function is one of the most important steps in technology transformation, and also an easy one to skip in the rush of selecting a new solution. Ardent Partners developed the ePayables Framework (*see Figure 8 below*) to help AP departments evaluate their various processes by them into smaller, more manageable segments. For the purposes of this discussion, Ardent Partners defines "ePayables" as the solutions and services that automate all or part of the three phases of the AP process – invoice receipt, invoice processing, and payments. By developing a clear view into the scope of activities that occurs within each phase, what resources and systems are utilized, and what processes are followed, AP departments will be better able to set standard practices and work to develop best practices.

Figure 8: The Ardent Partners ePayables Framework™

© Ardent Partners - 2016

Developing this unencumbered view into the scope of activities within each segment, what resources and systems each phase uses, and the processes that are followed can place the AP team into a better position to both set standard operating procedure and to codify best practices. The Framework is also designed to help AP teams with manual, paper-based processes better grasp the technology landscape and help those starting on the road to automation comprehend how to prioritize and then optimize their technology investments.

The Ardent Partners ePayables Framework is organized into three major phases:

- **Receive** – How invoices are received.
- **Process** – How invoices are validated and approved.
- **Pay** – How invoices are scheduled for payment.

"Receive" and "Process" Phases

The first two segments of the AP process – "**Receive**" and "**Process**" – include the solutions and methods that AP (or buying) organizations use to receive, validate, match, approve, and process invoice information before scheduling payment. While these phases are functionally similar in every enterprise, the sub-steps across them can vary depending on factors such as company size, industry, and geography; the steps can also be different based on organizational maturity and level of automation in place.

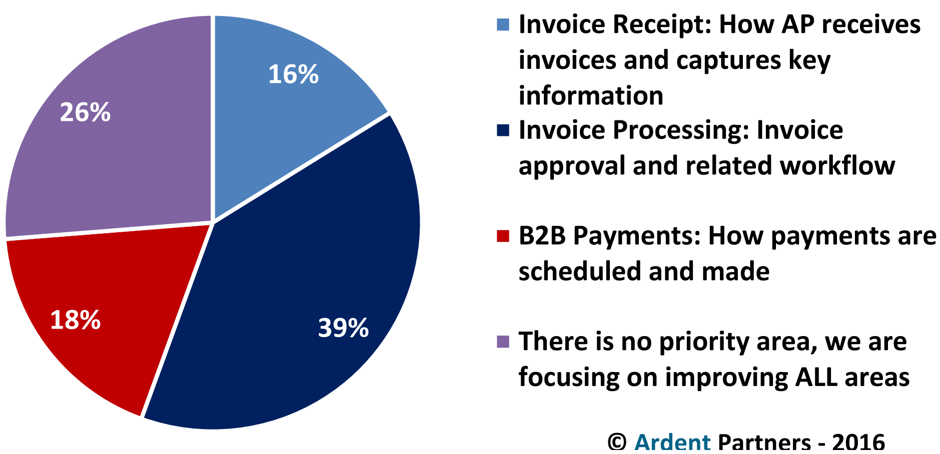
The "Pay" Phase

Invoices that have been validated, matched, and approved move into the final phase of the ePayables framework – the "**Pay**" phase – which includes both the scheduling and execution of the vendor payment. During this phase, the AP team can work most closely with treasury and finance to develop and execute supplier payment strategies that can assist with working capital optimization. As more enterprises recognize the strategic importance of the AP team, and AP expands its level of process automation and access to its financial data, AP will shift into a position to better influence and augment cash management activities.

Putting a Spotlight on Process Improvement

In a world where continual improvement has become standard operating procedure, AP groups are expected to deliver on current targets and improve upon them in the future. Over the next 12 months, more AP departments are focused on improving the activities around invoice processing (39%) than any other area (*see Figure 9*).

Figure 9: Priorities for Improvement (Next 12 Months)



This makes sense because, historically, AP automation initiatives have attacked the inbound paper invoice first with baseline document management (or scan and capture) solutions. The challenge for many of those groups today is that while they have a solution (or service) that digitizes paper invoices, they are frequently left to manage the approval process in a more manual way. The result is that Ardent Partners expects the use of eInvoicing and Scan and Capture solutions that offer automated workflow to continue to grow in the marketplace.

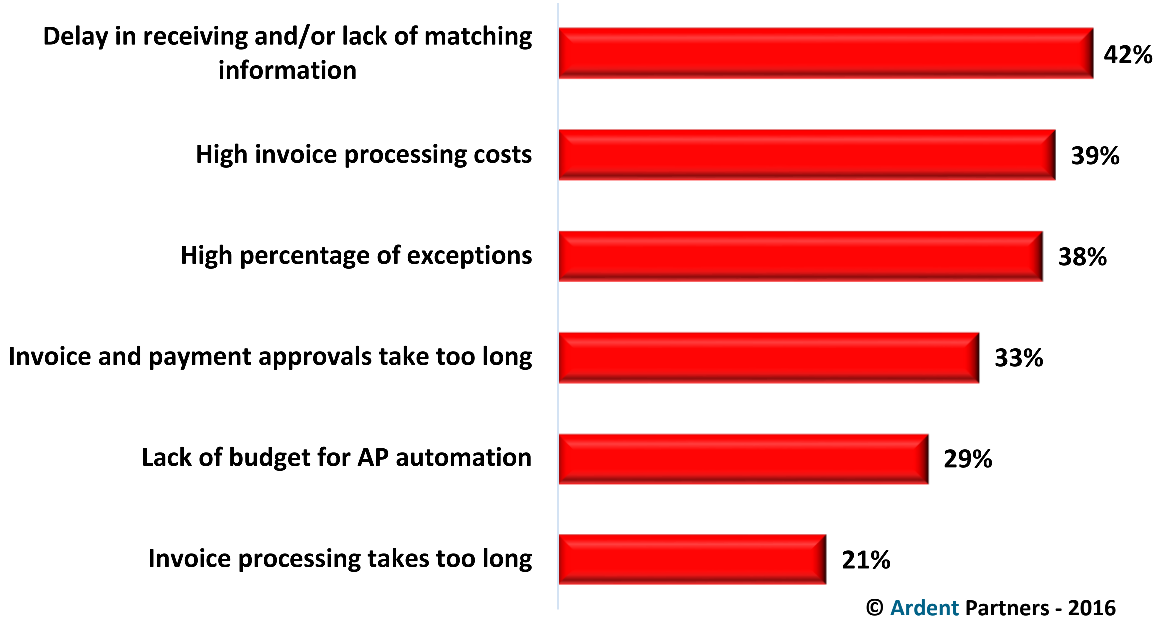
B2B payments, on the other hand, has only more recently started to attract the attention of AP and finance professionals as an area to potentially increase both efficiencies and bottom line impact. While only 18% of AP leaders have prioritized this final stage of the AP process for improvement over the next 12 months, Ardent expects this percentage to increase significantly over the next few years. To start, more ePayment solutions and networks have entered the market in recent years, which has generated greater awareness of the opportunity that B2B payments provides for AP to drive some of its most direct strategic and financial value. This category includes innovative solutions such as payment automation, dynamic discounting, and supply chain finance ("SCF"), which can provide financial benefits that reverberate beyond the AP team (more on SCF and discounting later in this chapter).

Lastly, it is important to note that 26% of enterprises see value in focusing on all areas at once. This makes sense, given that the entire ePayables Framework – receipt, processing, and payment – are all inextricably linked, which means that inefficiencies at any stage of the process can, and frequently do, result in problems with other stages. This means that if suppliers send in paper invoices and the AP team's "receive" process is a largely manual one, then it will take longer for an invoice to move through the approval process. A more holistic approach is vital for AP improvement, and one way to do that is through addressing all areas at once. However, either piecemeal or holistic improvement can work – but AP teams interested in truly capturing the prize of greater strategic value must eventually improve across all areas regardless of how they start.

Mountains to Climb: Challenges Facing the AP Team

The AP team faces several key obstacles on the road to achieving greater relevance and impact within the enterprise. These include exceptions, the high cost of invoice processing, the length of time it takes for an invoice to be approved, and poor visibility into AP data. Each of these is a significant barrier that AP departments must surmount to become more strategic, and each is linked, in many ways, to the others. For example, a lack of visibility into AP data can lead to exceptions taking longer to resolve, which extends the time it takes for invoices and payments to be approved, and then increases invoice processing costs. These top challenges facing AP (*see Figure 10 below*) are not insurmountable, but they will require a concerted effort to address.

Figure 10: Top AP Challenges in 2016



Each of the top challenges in Figure 10 can be addressed with some form of process automation. The top challenge, delay in receiving (or lack of) matching information (42%) is often solved with solutions that increase the ability of AP to communicate and collaborate with suppliers. Linking the procure-to-pay process either by linking an ePayables solution to those managed by procurement or simply deploying a closed-loop tool can help link order and receiving documentation to an invoice, which can speed approvals. It is important to note that validating an invoice against the purchase order ("PO"), receiving slip, or contract is a critical step in the approval process. If any of the correct matching information is missing or delayed, then an exception can be caused and the invoice takes longer to approve. This then delays supplier payment, and can result in higher overall costs because of an extended invoice approval time. This top challenge leads directly into a high percentage of exceptions (38%), which can easily result from delays in receiving matching information.

High invoice processing costs (39%) and invoice/payment approvals taking too long (33%) are the next major challenges facing the AP team. Both of these can be through a combination of process improvement and automation; invoice/payment approval timelines can be shrunk with the application of business rules in automated workflow solutions, which typically allow for automated routing in case an authorized approver does not act within a certain timeframe. As approval timelines shrink, costs decrease. These two avenues, along with exceptions, are linked: problems in one creates consequences in the others.

Manual, paper-based processes exacerbate each of these challenges – delay in matching information, high costs, lengthy approval times, and high exception rate – because manual processes require AP staffers to spend time manually keying in invoice data, searching out missing data for validation, seeking out invoice approvals, and hunting down information to resolve exceptions. These are time-intensive tasks in a manual environment, and costs add up as the process also takes longer and is more likely to include errors.

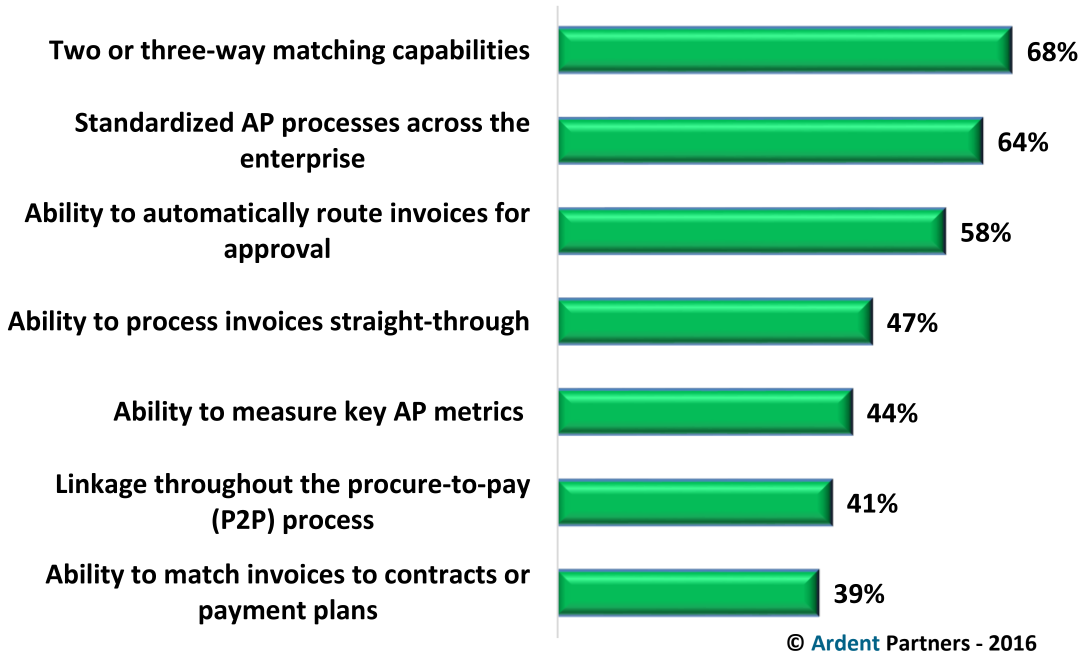
Contrast this with an automated environment, which allows for greater visibility into invoice and payment data in addition to streamlining invoice and payment approvals and making it easier to seek out missing or delayed matching information. Automated systems can also match and validate invoices that have already entered the system, either through scan and capture or other electronic means, which can lower costs because each full-time AP professional can process more invoices.

Float Like a Butterfly: The AP Team's Capabilities in 2016

The majority of AP teams share a number of operational strengths focused mainly on everyday tasks that show a certain level of functional competence (*see Figure 11, next page)*. In essence, AP teams in this study tend to perform reasonably well at the core tasks of their function, which places even the most manual of AP teams on solid footing to make the case for investment. Where many AP teams fall short, however, is with the activities of a more strategic nature; specifically, these are the capabilities that can show enterprises the true value of the AP team.

Roughly two-thirds of all AP teams have the ability to perform two- or three-way matching (68%) and have created standardized processes across the enterprise (64%). These two capabilities indicate the core strength of AP departments industry-wide. It is disconcerting that a third of AP teams lack these two capabilities, but that could result from a lack of technology infrastructure that simplifies both matching and process standardization. As AP automation systems proliferate throughout the marketplace, driven by lowering deployment costs and better usability, these numbers will increase over time.

Figure 11: AP's Operational Capabilities



Of similar importance is the ability to automatically route invoices for approval (58%). It is not uncommon, in a manual environment, to have invoices languish on approvers' desks for days and weeks waiting to receive final consent before the supplier is paid. Automated routing can mitigate delays first by potentially enabling "straight-through" processing, where an invoice is approved without any human intervention (other complementary solutions are needed to achieve this). These solutions can also define "time limits" that an invoice can languish. If the first approver does not validate the invoice within a set period, 24 hours for example, then the invoice moves to the next authorized approver in line. This can cut invoice processing costs, and allow for greater flexibility in scheduling supplier payments.

These tactical capabilities are "table stakes" for the modern AP team; a majority of AP departments possess matching functionality and standardized processes, and even automated routing is slowly becoming ubiquitous. Possessing these capabilities is critical for operational success, much like procurement's ability to analyze spend data, but this does not mean that these are the only capabilities an AP team needs to succeed. AP must also improve along strategic lines, which begins with understanding performance.

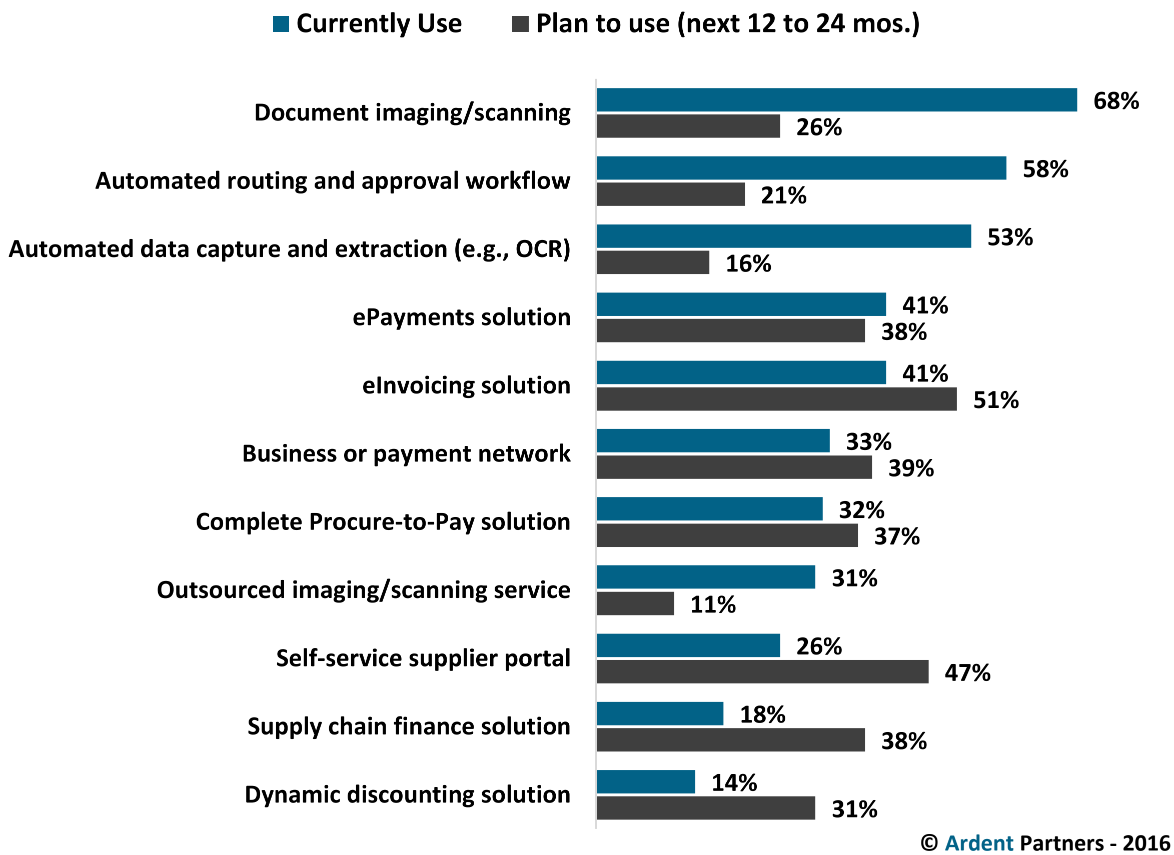
Because of this, it is disconcerting that only 44% possess the ability to measure key AP metrics. Process improvement is next to impossible without first establishing baseline metrics; without this, AP teams will be unable to determine any level of improvement. Thus, measuring key metrics is a critical step for those AP teams that have their "eyes on the prize" of greater strategic value – executives frequently make decisions based on metrics, so the ability to collect and present key AP measurements is a critical step in gaining budget for improvement.

Similarly, a linkage throughout the P2P process (41%) can drive enormous efficiencies via information sharing with procurement and a resulting data visibility across functional lines. Recall that AP and procurement operate two halves of the same P2P process, so linking the two departments as closely as possible can result in significant benefits. Procurement gains deeper visibility into enterprise spend and supplier performance, and AP can gain greater insight into supplier contracts to improve processing. Suppliers also stand to benefit from engaging with their customers across a single, linked process. Enterprises that possess this capability show, on average, greater efficiencies and the ability to drive improved financial results.

Sting Like a Bee: ePayables Technology Adoption in 2016

Given recent trends toward improving business processes in a bid to increase efficiencies and drive down costs, it is easy to wonder why more enterprises have not fully automated their AP processes. This is especially true in light of this research study showing that reducing costs (*see Figure 12, next page)* is a top priority in the year ahead. Automation is the best possible tool to achieve this cost-cutting priority, as Ardent Partners research has consistently shown that automated invoicing processes can cost between 40% and 90% less when compared to manual, paper-based processing methods. Figure 12 denotes the ePayables solutions currently in use and planned for usage in the next 12 to 24 months that have helped, or will help, enterprises achieve the automation required to improve process efficiency and cut costs. A discussion of each solution class will follow.

Figure 12: ePayables Current and Planned Usage

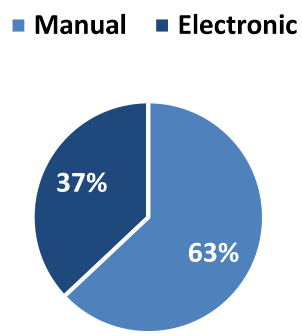


Scan, Capture, and Workflow Solutions

By far the most common class of solution in the enterprise, "scan, capture, and workflow" solutions are also among the easiest to deploy. This solution class is designed to take paper-based invoices and transform the invoice data into a usable electronic format that can then be processed through an invoice approval workflow. In Figure 12, there are four solutions that fall under this category: document imaging/scanning, automated routing and approval workflow, automated data capture and extraction (e.g., OCR), and outsourced imaging/scanning service. These four solutions focus on the opening stages of the invoicing process – "receive" and "process" – along with the rest of the scan, capture, and workflow solution class.

Document imaging/scanning (68% adoption) is the scanning of a paper invoice so it can be turned into an image and more easily routed for approval. Enterprises will often leverage existing technologies, such as the office multi-function printer or a desktop scanner, to scan invoices in-house. An alternate option is the **outsourced imaging/scanning service (31% adoption)**, which performs the same function but external to the enterprise. These two solutions, while removing paper from the process, do not offer much value on their own; invoice information must still be transferred into a processing system for approval and payment. Their value lies in the fact that enterprises still receive 63% of their invoices as paper documents versus 37% electronically (*see Figure 13*).

Figure 13: Invoice Formats



© Ardent Partners - 2016

The next most-widely adopted solution, **automated data capture and extraction solutions (53% adoption)** extract the data from the invoice image and transfer it into the necessary systems for further processing. This is accomplished through a variety of technologies, such as optical character recognition ("OCR") or intelligent character recognition ("ICR"), which can reduce or eliminate time-intensive manual data entry.

Lastly, **automated routing and approval workflows (58% adoption)** further bolster the functionality of imaging/scanning and automated data capture tools. Part of the reason it takes so long to approve invoices in a manual environment is because of the high likelihood that the invoice is sitting on someone's desk or in their email inbox waiting for approval. Automated routing mitigates this problem. Users of automated routing solutions can design and apply business rules that determine how long an invoice will stay in an approver's queue and define approvers based on criteria such as cost center, invoice amount, spend category, and tolerance level. It can also establish standards for invoices meeting certain criteria to be automatically approved.

eInvoicing Solutions

Like scan, capture, and workflow technologies, eInvoicing solutions focus for the most part on the initial phases of the invoicing process. The difference is that eInvoicing solutions *start* with an electronic invoice as opposed to digitizing a paper document. Electronic invoicing solutions maintain this format throughout the matching, validation, and approval process, eliminating the need for data entry or data capture. As a result, **eInvoicing solutions (41%**

adoption) consistently interest AP teams that wish to remove paper from their invoicing process entirely. This solution class offers enormous process simplification in addition to cost savings on a per-invoice level, which is often seen through eInvoicing solutions' ability to enable "straight-through" or "touchless" processing, where invoices are matched, validated, and approved without any human interaction.

Although deployed solely on the buyer's side, eInvoicing solutions still require supplier participation and enablement in order to be truly effective. As a result, many eInvoicing solutions include a **self-service supplier portal (26% adoption)** or are connected to a **business or payment network (33% adoption, discussed below)** as an added incentive. Portals allow suppliers to update their own information, including mailing address and contact person, while also increasing visibility into invoice and payment status. On the whole, supplier portals can be effective at increasing supplier enablement with eInvoicing solutions, as well as improve collaboration with the buying organization. The benefits these solutions provide are being recognized in the marketplace, as 47% of enterprises expressed interest in implementing a supplier portal in the next 12 to 24 months; this is the highest level of interest of any ePayables technology.

B2B Payments and Working Capital Optimization

Electronic payments ("ePayments") have captured the attention of AP and finance leaders worldwide, as ePayment methods such as ACH, wire transfers, payment networks, and commercial cards can increase visibility while also improving the level of accuracy and control over payment scheduling. As a result, enterprises have increasingly begun to focus on the third leg of the ePayables Framework – the "pay" phase – in a bid to improve efficiency and further drive down costs. This has taken the form of enterprises leveraging an **ePayments solution (41% adoption)**, while also looking for innovative ways to drive improved financial results through enlisting AP in working capital optimization.

AP has become more involved in working capital because, at its core, AP is a cash-distribution function. In fact, AP is frequently the largest single non-payroll source of cash outflows in the organization. Savvy enterprises have recognized this, and have begun using solutions like **supply chain finance (18% adoption)** and **dynamic discounting (14% adoption)** to drive improved financial results. Both of these solutions are designed to help manage enterprise cash more effectively without impugning the supplier relationship. Dynamic discounting opens the door to greater discount capture by offering discounts on a sliding scale, instead of the traditional 2/10 net 30 early payment discount that many enterprises may miss because of longer invoice approval times. Buyers are able to capture more discounts and suppliers can receive payment more quickly, if they wish to, under this system. Dynamic discounting may have a low adoption rate, but it has one of the highest levels of interest (31%) of any ePayables solution, which is a clear recognition of the interest in driving financial value from the B2B payment process.

Supply chain finance is an early payment discount technique that differs from traditional discounting because it uses third-party capital, typically from a bank or other financial institution, to pay an invoice early – instead of internal buyer funds. In some cases, the early payment is made the instant the invoice is approved, which allows the supplier to receive its money on a pre-selected schedule at an agreed-upon discount, while the buyer pays the third party the full cost of the invoice at the original maturity date. Instead of relying on the creditworthiness of the supplier, the financial institution relies on payment from the buyer, often a less risky entity than the supplier. SCF is an innovative way for enterprises to help their supply chains access credit and improve cash-flow at a lower cost than might be otherwise available in the credit market. SCF becomes an increasingly important source of credit to suppliers when banks tighten lending standards due to increased pressure from regulators or changes in underwriting/lending standards over the arc of a business cycle. Like dynamic discounting, SCF has one of the highest levels of interest among ePayables solutions, with 38% planning to deploy it in the next 12 to 24 months.

Business and/or Payment Networks

One of the most significant P2P trends of the past 16 years has been the rise in network-based invoicing and payment solutions. These "business networks," as they are commonly called, are web-based platforms that allow interconnected buyers and sellers to trade, communicate, and collaborate with each other. Payment networks, a subtype of business network, focus specifically on payment transactions between buyers and suppliers. **Business or payment networks (33% adoption)** have gained prominence in recent years because of a variety of factors, but much of this can be tied back to enterprises desiring greater connectivity with and visibility into their supply chains. Business networks function especially well in this role, providing improved collaboration and communication throughout the extended supply chain.

Procure-to-Pay

AP and procurement occupy two sides of the same process – commonly referred to "procure-to-pay," or "P2P," which comprises the entire workflow of eProcurement and AP. Thinking about this process in a holistic fashion can be important to driving greater efficiencies, but many enterprises are not there yet. This explains the low usage of **complete procure-to-pay solutions (32% adoption)** when compared to other ePayables technologies. However, the fact remains that connecting AP and procurement through a single solution and workflow can drive richer reporting and more effective communication between departments, which can result in improved financial results, better compliance with contracts, and much greater process efficiencies.

Bridging the Supplier Enablement Gap: The Value of Networks and Portals

One of the most persistent issues in automating accounts payable, besides receiving the budget necessary for any transformation project, lies in convincing suppliers to submit invoices using a new technology. Many suppliers are hesitant to invest the necessary time and energy to learn a new solution, especially if they must do so for all or most of their customers. Enter the business network, which in many cases obviates this issue.

Business networks, as a general characteristic, tend to include thousands and sometimes millions of businesses transacting across a single platform. The larger the business network, in fact, the more likely that a supplier's customers are already transacting on it. Moreover, the more customers a supplier has on a particular network, the more of a value-add it is for them to use the network to do business. For example, suppliers can log in to the network to review invoice and payment information across all their network customers instead of having to log in to multiple systems or make multiple calls to the different AP departments for updates. This also makes it much easier to settle disputes and errors by organizing and capturing the discussions around specific invoices or other documents and providing access to relevant information.

Similarly, a self-service supplier portal installed as part of an eInvoicing solution can solve many of the issues of supplier enablement. Suppliers often struggle with gaining visibility into invoice or payment status, so the ability to log in to a portal – even if it is specific to a single company – and view status updates can go a long way toward assuaging supplier concerns, as well as eliminating status calls to the AP department. Most supplier portals also allow suppliers to upload invoices in a format of their choosing, whether PDF or eInvoice, and be assured that the invoice has been received and is in queue to be processed.

The modern business world is becoming increasingly collaborative, which has opened the door to solutions such as business networks and supplier portals that enable the kind of open communication and data visibility that have previously been impossible to gain with manual processes. Business networks and supplier portals can thus help to create the kind of financial supply chain that keeps both buyers and suppliers happy and helps both sides of the relationship reach their goals.

Chapter Three: Best-in-Class Performance

This chapter is designed to enable the reader to do the following:

- Benchmark their performance to industry averages and understand how they perform relative to the average accounts payable program in the marketplace.
- Understand what operational and performance metrics define Best-in-Class performance levels for accounts payable programs today.
- Understand the wide range of capabilities that Best-in-Class AP departments use to outperform the market.

"Impossible is just a big word thrown around by small men who find it easier to live in the world they've been given than to explore the power they have to change it. Impossible is not a fact. It's an opinion. Impossible is not a declaration. It's a dare. Impossible is potential. Impossible is temporary. Impossible is nothing." ***– Muhammad Ali***

A decade ago, the idea that an AP operation could be effective and efficient in supporting strategic business objectives while working as a key collaborator with both internal stakeholders and external suppliers may not have been impossible, per se, but it was highly unlikely. Today, that level of performance is more than possible. In fact, the group representing the top 20% of performers (defined by Ardent Partners as the Best-in-Class) have realized this potential. As a group, these top performers are starting to unlock the strategic value of AP, as well as the efficiencies that can be gained from increased automation. And while many more AP teams are focused on process improvement, visualizing the end goal is not the same thing as reaching it.

Enterprises with their eyes on the prize of delivering significant strategic value would do well to follow in the footsteps of Best-on-Class organizations. Standing on the shoulders of these "giants" should allow other enterprises to understand what needs to be done (and how it should be done) to accomplish their goals. Ardent Partners has defined the key capabilities, strategies, and solutions that Best-in-Class AP teams utilize in their continuing transformation efforts. And these Best-in-Class AP organizations provide an instructive example, showcasing for other enterprises the results that are possible by investing in AP transformation.

The intent of this chapter then is to provide insight into the solutions and strategies that top performers employ to more broadly help AP departments achieve their goals.

Understanding the Baseline: AP Performance Metrics for 2016

Measuring performance metrics is an important part of understanding any business function. AP and finance leaders can use the benchmarks in Table 1 to compare their performance to the overall market and then better identify and understand the bottlenecks and hurdles that must be surpassed. It is important to note that metrics used to drive performance improvement should also be relevant. For example, there is no point in measuring percentage of invoices processed straight-through if there is no such capability.

Table 1: The 2016 Accounts Payable Benchmarks

Metrics	Market Average
Cost to process a single invoice (all-inclusive cost)	$13.04
Time to process a single invoice	12.2 days
Invoice exception rate	17.6%
Percentage of invoices processed "straight-through"	24.5%
Percentage of suppliers that submit invoices electronically	20.4%
Percentage of invoices linked to a Purchase Order (PO)	54.0%

The average AP department, especially those that process thousands of invoices per month, face inflated costs for invoice processing. The average cost to process an invoice in 2016 is $13.04. This number has trended down over the past decade but remains higher than it reasonably should be due to the total percentage of paper invoices being processed today (*see Figure 13, page 24*). This high cost is why enterprises focus on driving down the cost of invoice processing; even a 10% or 20% reduction in per-invoice cost can save significant money. The average time to process a single invoice, 12.2 days, is also a metric that has trended down over the last decade, but is one that should be lower today.

Exceptions remain a top challenge for AP teams, and as such it is vital that the function understand its exception rate and develop a plan to reduce it. At an average rate of 17.6%, exceptions should be a key focus for all AP departments; reducing exceptions can further drive down the average cost per invoice, which can result in even greater cost savings. Given the persistence of paper in the AP process, it is problematic to see that only about a fifth of suppliers submit invoices electronically (20.4%). AP teams must advance this number in the years ahead if they are to become more efficient.

Lastly, the final two metrics in Table 1 – percent of straight-through invoices (24.5%) and percent of invoices linked to a PO (54%) – also act as key efficiency drivers. As more invoices are processed in a straight-through manner, and more invoices come in with linked POs, AP teams can process more invoices more efficiently and drive greater cost savings.

The Best-in-Class Performance Advantage

Ardent Partners defines Best-in-Class performance in this research effort as the 20% of enterprises with the lowest average invoice-processing costs and shortest average invoice process cycle times. Top-performing enterprises have taken their AP operations to the next level by leveraging technology to streamline the AP process, make it more efficient, and enable more strategic activities to be carried out. Best-in-Class enterprises have demonstrated their ability to drive superior performance across both traditional and contemporary accounts payable metrics.

As Table 2 highlights, these high-performing organizations have significant performance advantages when compared with the rest of the marketplace. Best-in-Class AP teams achieve per-invoice processing costs that are **81% lower** than their peers, and invoice processing times that are **77% faster** than all other groups. Their invoice exception rates are **43% lower** than the rest of the marketplace, and they have a **34% higher** percentage of PO-based invoices. Most notable, however, is that Best-in-Class enterprises process nearly 60% of their invoices in a straight-through manner; this likely contributes to their improved performance among the other indicators.

Table 2: AP Performance Comparison, Best-in-Class vs. All Others

Metrics	Best-in-Class	All Others
Cost to process a single invoice (all-inclusive cost)	$2.87	$15.38
Time to process a single invoice	3.9 days	17.1 days
Invoice exception rate	11.2%	19.5%
Percentage of invoices processed "straight-through"	57.1%	16.1%
Percentage of suppliers that submit invoices electronically	47.3%	12.6%
Percentage of invoices linked to a Purchase Order (PO)	70.0%	52.3%

The Bleeding Edge: Characteristics of Best-in-Class AP Programs

Best-in-Class AP programs have demonstrated their ability to drive improved performance across a series of key metrics, a result in which automation plays a pivotal role. These high-performing AP teams also possess several characteristics that distinguish them from all other companies, starting with how their enterprises perceive the value of their AP team. Best-in-Class enterprises are 89% more likely to view AP as either exceptionally or very valuable from a strategic perspective, when compared with all other companies. This is a significant difference in perception; being viewed as strategically important means that AP is more often involved in activities that leverage its financial and operational data. This means that AP teams at Best-in-Class enterprises are viewed as strategic partners as opposed to a tactical back-office function.

Best-in-Class enterprises are also more likely to heavily leverage data and intelligence in their decision-making, especially in the following areas:

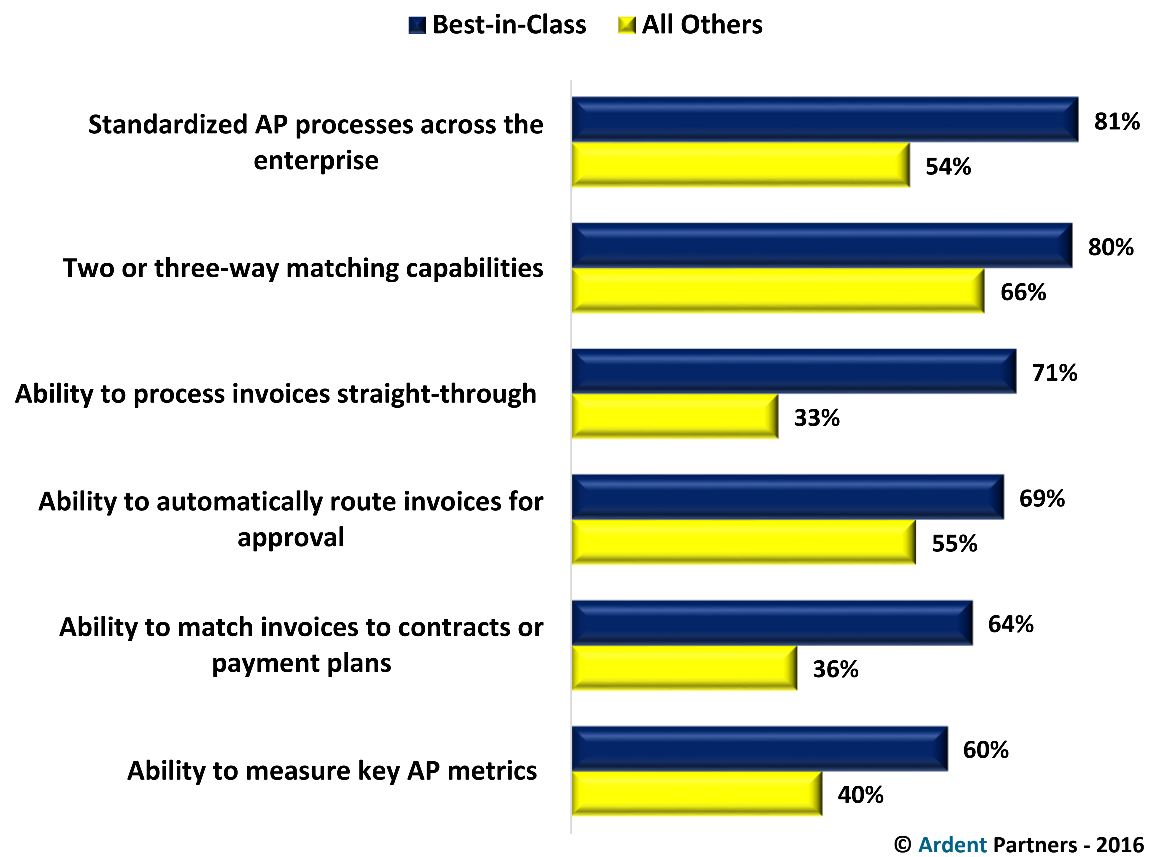
- Forecasting, budgeting, and planning: 1.2-times more likely
- Understanding the impact of cash: 2.3-times more likely
- Developing better payment strategies: 2.7-times more likely

This greater usage of data can help Best-in-Class enterprises make better-informed and more nuanced decisions as well as ensure high-quality performance measurement, which can benefit continuous improvement projects, as well as provide evidence that investing in AP technology can be advantageous for the enterprise.

The Best-in-Class Capability Advantage

Best-in-Class enterprises are also distinct only because of how they use a variety of technologies and capabilities (*see Figure 14, next page*) that drive their sizable performance advantage.

Figure 14: Key AP Capabilities, Best-in-Class vs. All Others



Improved process automation drives many of the benefits that Best-in-Class AP teams enjoy, but this does not mean that high-performing teams only achieve top results because of their technology usage. Rather, AP programs must rely on myriad capabilities that extend existing processes, codify and consolidate core operations, increase visibility into key operational and financial data, and improve collaboration with suppliers and other key stakeholders:

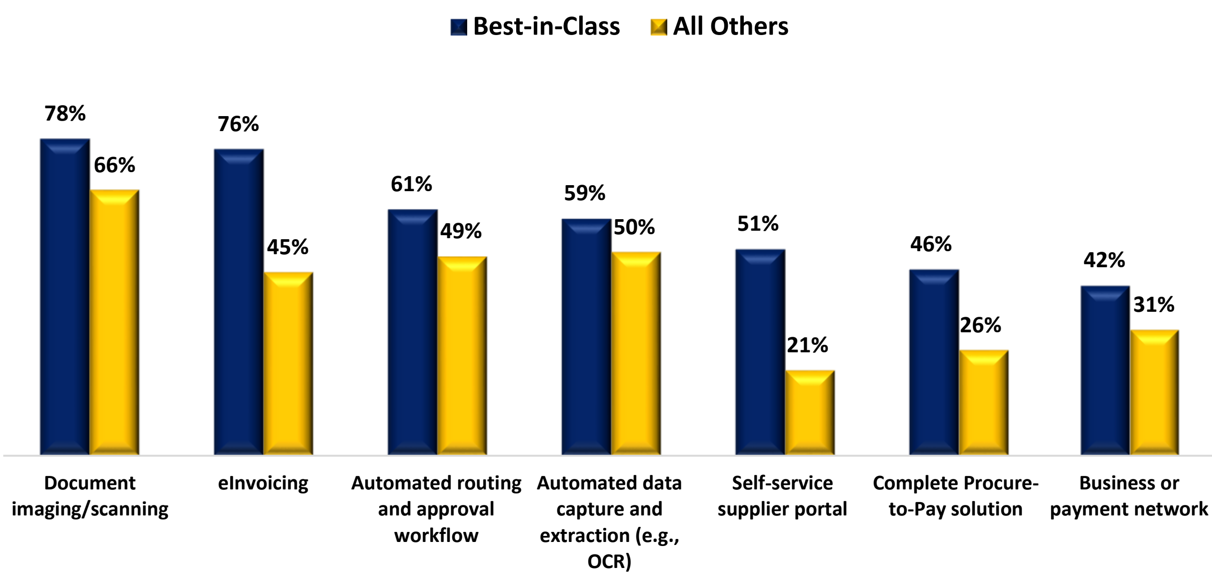
- **Standardized AP processes,** at first glance, appears to be one of those capabilities that is so basic as to not bear discussion. However, a high number of AP teams still struggle with leveraging standardized, repeatable workflows for AP across all business units, geographies, and functions. Standardizing processes is not a "nice-to-have" when it comes to optimizing AP; it is a core necessity if the function wishes to become a strategic partner in the business. This standardization can also help with automated routing, which can simplify invoice approval enormously.

- **Matching invoices to contracts or payment plans** can prove vital from a strategic perspective – matching invoices to supplier contracts improves visibility across the supplier relationship, and matching invoices to payment plans can provide insight into financial performance and bolster working capital optimization.
- **Increased straight-through processing** results in reduced costs and process times through removing manual inputs from the invoice approval process. As explained in Chapter Two, invoices follow a framework from receipt to processing to payment, and removing manual activities from that process can streamline it tremendously.
- **Measurement of key AP metrics,** which are critical to performance improvement, occurs more frequently among Best-in-Class teams. High performers understand the importance of tracking performance, so it comes as little surprise that they track key AP metrics at a higher rate than their peers.

Dig a Little Deeper: Best-in-Class Technology Usage

In addition to possessing improved process capabilities, Best-in-Class enterprises tend to adopt ePayables technologies at between 20% to 70% higher rates than all other enterprises (*see Figure 15*).

Figure 15: ePayables Adoption, Best-in-Class vs. All Others



© Ardent Partners - 2016

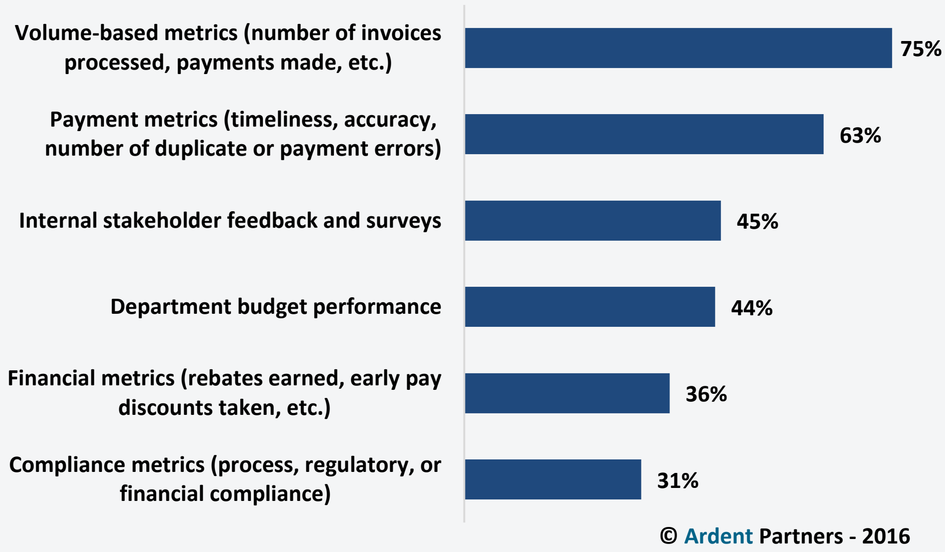
Best-in-Class enterprises possess several key technological advantages over other organizations, specifically related to how they apply automation to streamline their operations:

- **A focus on P2P automation.** A holistic linkage through the P2P process is one of the hallmarks of an advanced AP function. AP and procurement occupy two sides of the same process; tight linkage throughout this process offers increased visibility and efficiencies above and beyond even the most advanced transformation project that focuses on just one department. Best-in-Class enterprises recognize this, and are 77% more likely to leverage a complete procure-to-pay solution in their operations.
- **Eliminating paper as a problem.** As in previous years, high-performing AP teams leverage eInvoicing solutions at a significantly higher rate (76% vs. 45%) than all other companies. This results in Best-in-Class enterprises avoiding more of the time-intensive, high-cost, and transactional work of manual, paper-based processes by receiving, processing, and managing electronic invoices.
- **Self-service is the wave of the future.** Best-in-Class AP teams are 2.4-times more likely to leverage self-service supplier portals than all other companies. This can be a key differentiator from a process perspective, as it puts the onus on suppliers to ensure their information is updated in order to receive payment. Self-service portals also tend to allow greater visibility into invoice and payment status, which fosters a greater sense of collaboration and communication between AP and suppliers.
- **Removing AP from the process.** Best-in-Class organizations process, on average, nearly 4-times more invoices in a straight-through or "touchless" manner when compared to all other companies. Straight-through processing bespeaks a highly efficient AP operation that functions along well-defined and standardized rules, which is a key differentiator when it comes to increased efficiency and lower overall processing costs. That high-performing AP operations process so many more invoices in this manner speaks directly to the well-developed nature of those AP operations.
- **Leveraging the power of the network.** Business or payment networks can provide improved visibility, increased collaboration, and better lines of communication between buyers and suppliers. Top performers understand this, and use networks at a 35% higher rate than their peers as a result.

The Evaluation of Accounts Payable

When it comes to keeping its "eyes on the prize," one of the most valuable things for an AP department to know is how the executive suite – particularly the CFO – evaluates the department's performance (see Figure 16). The CFO's perspective is critical because, in many enterprises, the AP department reports into the CFO.

Figure 16: How Does the CFO Evaluate AP's Performance?



AP departments are most often evaluated based on volume of their activity (75%), which includes the raw numbers of invoices and payments processed. This is in keeping with the AP brand as a tactically focused invoice- and payment-processing team. Similarly, it is logical to expect that payment metrics (63%) focused on accuracy hold more weight than other evaluation measures.

That only 36% of enterprises evaluate AP around financial metrics, and only 31% evaluate the function on compliance, is indicative of the fact that many enterprises still do not recognize the value that AP provides (or at least, could provide) in these areas. For almost every AP operation, there is room to grow. The enterprises that begin to evaluate AP along these avenues may find themselves pleasantly surprised at the insight and impact the function can provide across a range of areas.

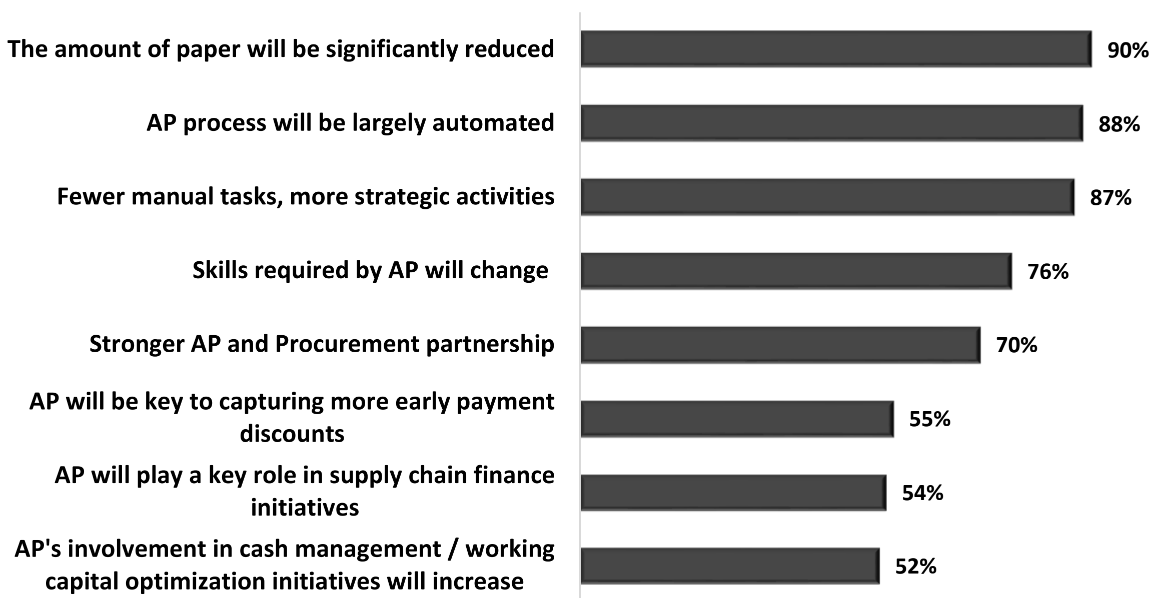
Chapter Four: Strategies for Success

The AP function is well-positioned to shatter the perceptions that have held it back – that AP is a tactically focused department that only provides value through invoice processing and payment scheduling. Indeed, the modern AP team can break from the past and achieve its prize of value in the enterprise more directly than ever before. The "strategies for success" outlined in Chapter Four can spark true AP transformation and ensure that the function achieves its goal.

The Future of Accounts Payable

Unlike other business functions, AP in many enterprises has operated much the same way for several years. Manual, paper-based processes dominated until a few years ago, but that is likely to change in the next few years – especially as more accessible and user-friendly technologies enter the marketplace (*see Figure 17*).

Figure 17: Expected Changes in AP (Next Two to Three Years)



© Ardent Partners - 2016

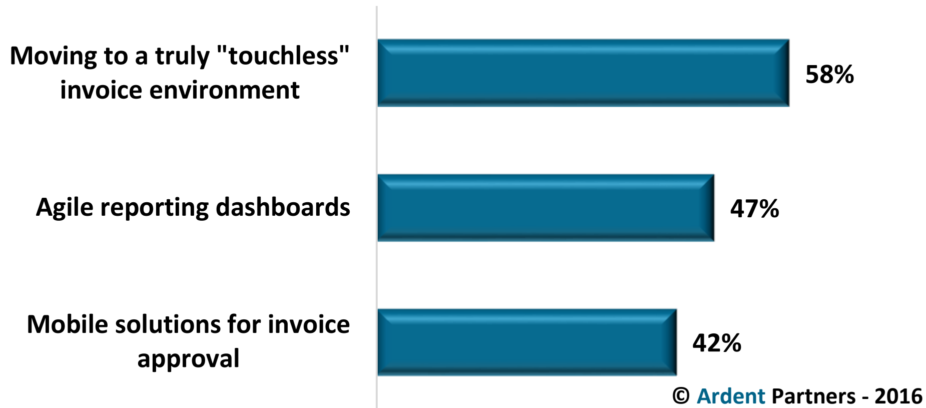
Among the most highly-anticipated changes to AP in the next two to three years, the reduction in the amount of paper (90%) has remained in the top position since 2014 given the interest level in increasing the amount of automation in the AP process. The next two most expected changes are linked to a reduction in paper via increased automation (88%), which will allow AP to become more strategic (87%).

Perhaps most intriguing is the expectation that the skills required by AP will change (76%). This indicates that AP professionals believe that transformation efforts will hold and overhaul the full operation. If AP wishes to attain the "prize" of strategic importance, AP leaders must develop their teams so that they have the skills required to drive the value that will increase AP's profile in the enterprise. One widely-held expectation is that the trend of greater collaboration between AP and procurement will continue (70%). The other major changes expected in AP tend to revolve around the function's impact on cash via ePayments, discounting, and supply chain finance.

AP's Game Changers

This year's survey respondents identified three game-changing innovations that could alter AP (*see Figure 18*). They share a common characteristic: a focus on streamlining operations. Moving to a truly "touchless" environment (58%) can remove the act of processing an invoice from the day-to-day duties of the AP team. This allows AP to process more invoices per full-time employee and focus on tasks that are of a more strategic nature. Anything the enterprise can do to remove tactical duties from AP can only benefit the wider organization because AP would then be free to leverage its financial and operational data to drive value.

Figure 18: Game-Changing Innovations for AP



Agile reporting dashboards (47%) could also help drive value from AP data. The ability to centralize, analyze, and share its data can allow AP to deliver operational and financial insights more quickly and could lead to stakeholders receiving better, more accurate intelligence more quickly and ultimately make better decisions

Similarly, mobile solutions for invoice approval (42%) can be very valuable in a virtual business environment as well as those that require business travel. For example, many executives in industries like manufacturing, consulting, oil and gas, and warehousing may not spend much time at the desk, making it difficult to approve an invoice from the desktop. This could lead to a late supplier payment and possibly even a late pay penalty, a missed discount, or missed supply chain finance opportunity. The ability to approve invoices on a mobile device potentially eliminates this issue; line of business leaders away from a workstation can approve the invoice on a tablet or smart phone and optimize performance.

Recommendations for All Enterprises

In order to transform an accounts payable function into a streamlined, holistic center of enterprise excellence and intelligence, enterprises must first follow the paths trod by Best-in-Class organizations in regards to technology adoption, cultural alterations, and programmatic capabilities and competencies. The following recommendations have been designed to help all AP departments, regardless of size, scope, or industry, enhance their existing operations and position the function for long-term enterprise value.

- **Improve the AP brand.** A broad-based, industry-wide transformation began a decade ago and continues to gain momentum, but many AP operations are still considered tactical, less relevant functions by enterprise executives. It is incumbent upon AP leaders to develop a strategy designed to change that perception by finding executive sponsors, leveraging stakeholder support, and consistently exceeding expectations.
- **Strengthen AP's "core," such as standardization and matching capabilities.** Achieving the "prize" of greater strategic value is possible for all AP departments, but that does not mean achieving that goal is without challenges. AP teams that do not first build a strong foundation for the function, such as standard processes for invoice receipt and approval, risk a more complex and arduous transformation project. Similarly, AP teams that work to improve their matching capabilities (e.g., with payment plans, contracts, and other documents) first will find a new automation process much easier in the long run.

- **Prioritize the use of data to execute more intelligence-led decisions.** The financial and operational data that AP collects as part of its normal business activities has enormous value to the wider enterprise. Prioritizing its use can help streamline AP's performance at a department level, as well as offer up insights to other partners like treasury and procurement. Greater visibility into and usage of this data can drive benefits throughout the organization.
- **Attack traditional problems (like exceptions) to ensure that AP can evolve into a more strategic function.** Exceptions are the "bane" of the AP team, and frequently one of the major problems holding the function back. Vastly reducing exceptions and other traditional issues – such as slow approval times and high amounts of paper invoices – can smooth the way forward for AP teams to achieve the "prize" of greater strategic value to the organization.
- **Emphasize full AP process automation as a desired end-state.** The AP process can create enormous value for the enterprise, but only if the function is able to focus on the more strategic aspects. AP automation can help achieve this goal by removing paper from the front- and back-end of the AP workflow. Moreover, as the AP process becomes more automated, it becomes less expensive to process invoices and the enterprise is able to capitalize on these efficiencies to save costs in the long run.
- **Build a stronger bridge between AP, treasury, and procurement to drive deeper insights and better performance.** AP can be, and frequently is, a vital partner for treasury and procurement. Procurement can use AP data to inform its supplier and spend management activities, while treasury can leverage AP data to drive better and more nuanced cash management strategies. AP can similarly use procurement's supplier data to better track the root causes of exceptions, and can more intelligently schedule supplier payments with access to treasury's insights. Strong collaborative relationships must be fostered between these three groups.

Next Level Recommendations for AP Professionals and Executives

Market conditions are in a constant state of flux, requiring AP professionals and finance leaders to keep abreast of changes that can have either a deleterious or beneficial effect on their business. The following recommendations will help organizations better prepare for the future and assist them in attaining the prize of "next level performance:"

- **Evaluate the skills and competencies of the AP team as a way to ensure the function remains vital in the years ahead.** The business world is always changing, and AP teams must change with it in order to remain valuable. For example, as AP's ability to impact cash management grows, a new set of needed skills is likely to emerge. AP leaders need to evaluate the current state of operations and associated capabilities but should also consider the changing direction and needs of the business and what AP will need to be able to do to support them
- **Align the goals of the finance function with that of the enterprise.** For too long, AP's goals (process more invoices, reduce exceptions, etc.) have been divorced from core enterprise objectives. One of the best ways to show that AP can be more than a tactical function is to make the effort to align department-level goals with overall business objectives. Doing this well will help AP improve its image/brand.
- **Leverage innovative financial solutions to drive increased value from the payment phase of the AP workflow.** As electronic payment methods come to prominence, it is no longer enough to make the change from paying suppliers with checks to paying electronically. Innovative financial solutions like dynamic discounting and supply chain finance can increase the strategic value of the payments workflow. Leveraging payment solutions effectively can drive financial value to the enterprise while also enhancing the supplier relationship, which can be a game-changer in terms of organizational competitiveness.

Conclusion

No matter how AP is viewed in the enterprise, the fact remains that the function is poised to improve its ability to drive operational and financial value. This cannot happen, however, without a strong focus on linking department-level goals with enterprise priorities nor without addressing the capabilities gaps that hold the average AP team back today. Keeping their "eyes on the prize" can be challenging, particularly when an AP brand has lost its luster. It is the task of AP to convince the naysayers that AP can do and deliver more. It also falls to these AP leaders to emphasize collaboration and communication, through an abiding commitment to functional excellence as well as the development and execution of smart strategies. Only then can AP ascend to a seat in the enterprise pantheon of strategic partners.

AP Skills for the Decade Ahead

The skills that AP teams require to be competitive in the modern business world are changing. As a result, AP leaders must regularly evaluate and update the skills of their departments to include the techniques and activities that will make them more valuable to the wider enterprise.

In recognition of this, Ardent Partners asked AP professionals to rate their departments across a set of 15 of the higher-level competencies that an AP staff or department should have in place in order to execute well today and in the decade ahead. The self-reported ratings (on a 1-to-5 scale, with "1" representing no competency and "5" representing mastery) have been categorized into three tiers below (see Table 3).

Table 3: The Ardent Partners' AP Competency Matrix

Ardent Partners' AP Competency Matrix		
Strong	**Average**	**Poor**
Tax Compliance	Operational Analysis	Cross-Border Invoicing / Payment
Understanding of Functional Partners (e.g., Procurement, Treasury)	AP Automation	Data Analysis
Electronic Payments	Policy Management	Financial Analysis
Payables Fraud Awareness	General Marketplace Knowledge	Change Management
Procure-to-Pay Comprehension	Technological Acumen	General Business Consulting

AP leaders should use the competency matrix above to determine where the department's strengths and weaknesses lie and then develop a plan to improve the team's command of skills the enterprise deems vital. Many of the skills AP needs today will not be the skills it needs tomorrow, so working to either hire people with the necessary skills or training existing employees can help ensure that AP will be valuable both now and in the future.

Appendix

About The Authors

Andrew Bartolini, Chief Research Officer, Ardent Partners

Andrew Bartolini is a globally-recognized expert in accounts payable, sourcing, procurement, and supply management. Andrew focuses his research and efforts on helping enterprises develop and execute strategies to achieve operational excellence within their finance and procurement departments. Andrew is also the publisher of CPO Rising, the news and research site for Chief Procurement Officers and other procurement leaders (www.cporising.com).

Advisor to corporate executives and leading solution providers alike, Andrew is a sought-after presenter, having lectured and presented more than 200 times in seven different countries. Over the past decade, Andrew has benchmarked thousands of enterprises across all facets of their accounts payable, sourcing, procurement, and supply management operations and his research is currently part of the Supply Chain/Management curriculum at several US universities. He actively covers the technology marketplace as well as trends in sourcing, procurement, supply management, and accounts payable and has been published or quoted in leading business publications including The Wall Street Journal, Business Week, Investor's Business Daily, Forbes, and Fortune, as well as the major trade publications focused on accounts payable and supply management.

Prior to becoming an industry analyst, Andrew developed, packaged, deployed, and used supply management solutions on behalf of enterprises in the Global 2000 while working for Ariba and Commerce One. Additionally, his experience in strategic sourcing (where he managed sourcing projects totaling more than $500 million in aggregate client spend), business process transformation, and software implementation provides a "real-world" context for his research and writing.

Andrew has been named a "Pro to Know" by Supply and Demand Chain Executive three times and holds a B.A. in Economics from The College of the Holy Cross and an M.B.A in Finance from Indiana University. He welcomes your comments at abartolini@ardentpartners.com or 617.752.1620.

Matthew Delman, Senior Payables Researcher, Ardent Partners

Matthew Delman is a senior researcher in Ardent Partners' accounts payable practice, a position he has held since 2014. In this role, he focuses on the technologies that streamline the AP workflow, including B2B electronic payments, electronic invoicing solutions, business networks, and the evolution of the accounts payable discipline from transactional to strategic value-add.

Matthew has more than 10 years of editorial and financial services experience, including a brief tenure managing the editorial operations of a research-focused marketing services firm and three years as a senior editor in The NASDAQ OMX Group's corporate services division.

He has a master's degree in technical communications from Northeastern University and a bachelor's degree in communications from Salem State University. Matthew welcomes questions or comments at mdelman@ardentpartners.com.

About Ardent Partners

Ardent Partners is a Boston-based research and advisory firm focused on defining and advancing the supply management strategies, processes, and technologies that drive business value and accelerate organizational transformation within the enterprise. Ardent also publishes the CPO Rising and Payables Place websites. Register for exclusive access to (and discounts on) Ardent Partners research at ardentpartners.com/newsletter-registration/ and join its LinkedIn Group.

Research Methodology

Ardent follows a rigorous research process born from years of market research experience conducted in the accounts payable ("AP") market. The research in this report represents the web-based survey responses of 184 business professionals and includes interviews from several accounts payable and finance executives. These 184 participants shared their strategies and intentions, as well as their operational and performance results to help us define Best-in-Class performance and understand what levers the leading groups use to obtain their advantage. This primary research effort is based upon the survey responses, interviews, and the experience and analysis of the report author. Complete respondent demographics are included below.

To purchase reprints of this report, please email research@ardentpartners.com. For more information on this and similar topics, please visit the research library at www.ardentpartners.com.

Report Demographics

The research in this report is drawn from respondents representing the following demographics:

Job Function: 62% accounts payable; 24% finance/treasury; 9% procurement; 5% other

Job Role: 22% VP-level or higher; 31% director-level; 35 % manager-level; 12% other

Company Revenue: 59% Large (revenue > $1 billion); 26% Mid-market (revenue between $250 million and $1 billion); 15% Small (revenue < $250 million)

Region: 66% North America; 24% EMEA; 7% Asia-Pacific; 3% South America

Industry: More than 24 distinct industries are represented. Public Sector, Health Care, Financial Services, Education, and Manufacturing are the largest industries in the survey pool; no industry represents more than 15% of the overall survey respondents.