2021
BENCHMARKING
REPORTS

World Class AP Performance: Efficiency Benchmarking Metrics

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WHAT'S NEW IN THIS REPORT

The reports in the 2021 Benchmarking series present data subdivided by two key metrics: **level of automatio**n and **process maturity**.

This is a different approach than in the past, when we analyzed the marketplace by dividing it between those organizations that were automated versus those that were not. However, in 2021, more than three-quarters (77%) of all AP departments have some form of automation, requiring a different approach.

Consequently, you will generally see the data graphed with "level of automation" on one axis and "process maturity" on the other. Be sure you identify where your organization fits into each of those categories before selecting the appropriate benchmarking metrics in order to get an "apples-to-apples" comparison. For more information, see the first report in this series, "Maximizing Your Automation ROI."

Level of Automation

This year, and going forward, we're evaluating departments based on how many of the following processes have been automated:

- Invoice receipt
- Data capture
- Invoice approval
- PO-to-invoice matching
- Payments

Low automation is defined as having automated **no more than two steps**.

Significant automation is defined as having automated **three steps**.

End-to-end automation is defined as having automated at **least four steps**.

No automation is defined as having automated **none of these steps**.

Process Maturity

Within each of those automation categories, peer groups are further refined by process maturity, based on the self-assessment in the "Maximizing Your Automation ROI" report, the first one in this series.

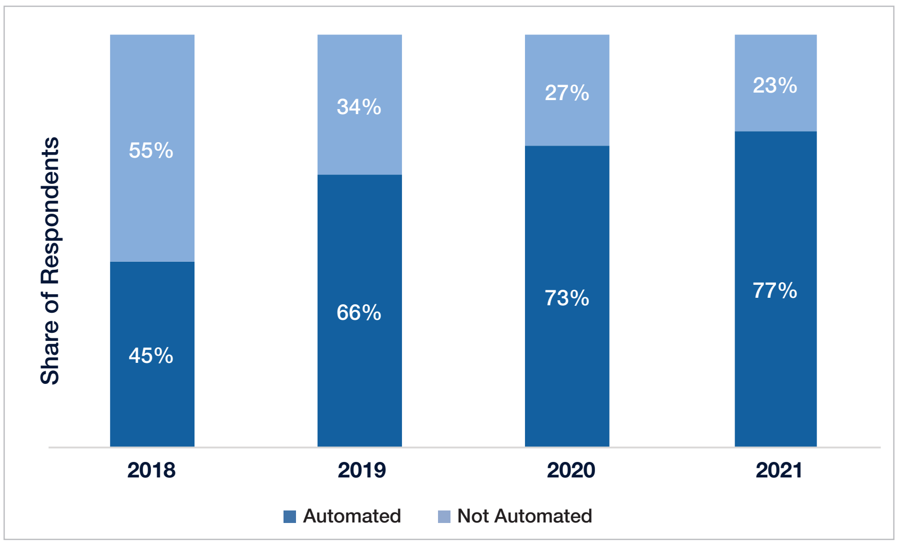
If you marked any step 1s in the self-assessment as being applied "inconsistently," then consider your AP department to still be operating using desk-level decision making—where processors set their own priorities and methods.

If you marked all step 1s as "consistent," but then have a mix of "consistent" and "inconsistent" process steps throughout the rest of the assessment, your AP department is operating using department-level decision making. At this level, processors are largely doing the same thing, but management is not yet enforcing that everyone do the right thing.

If you marked all 30 steps (all six steps across the five stages) as “consistent,” then consider your AP department to be operating using P2P decision making. At this point—achieved by fewer than 20% of respondents—teams are in a continuous improvement loop.

Because level of automation and process consistency are the two biggest variables when evaluating AP team performance, establishing peer groups based on these categories enables you to compare your results to others most like yourself. In other words, it makes the results more actionable.

FIGURE 1. DISTRIBUTION OF AUTOMATED VS. NOT AUTOMATED AP TEAMS (2018-2021)



BENCHMARKING YOUR PERFORMANCE

This report focuses on three core metrics:

1. **How often do you pay your bills on time?**
2. **At what cost?**
3. **And at what level of efficiency?**

Paid on Time Rates

The most common benchmarking question asked is: How long should it take me to pay an invoice? There is no single answer or approach that would work for all departments; sometimes paying as fast as possible shouldn't even be the goal.

Instead, the better questions to ask include: Are you paying most of your bills on time? Are you maintaining good relationships with your vendors? Are you avoiding late fines and penalties? Are you setting yourself up to capture early-pay discounts, where applicable?

IOFM's data shows that those who pay at least 90% of their invoices on time are deemed to be top performers. But depending upon the consistency of your process approach, this benchmark may be difficult to achieve.

Putting aside automation (which was not a critical factor in evaluating this metric), only one-third (35%) of those hamstrung by desk-level decision-making achieve a 90% paid-on-time rate, while more than half (52%) of those with P2P-level decision make the cut. The split among non-PO invoices is similar.

FIGURE 2. SHARE OF POS PAID ON TIME

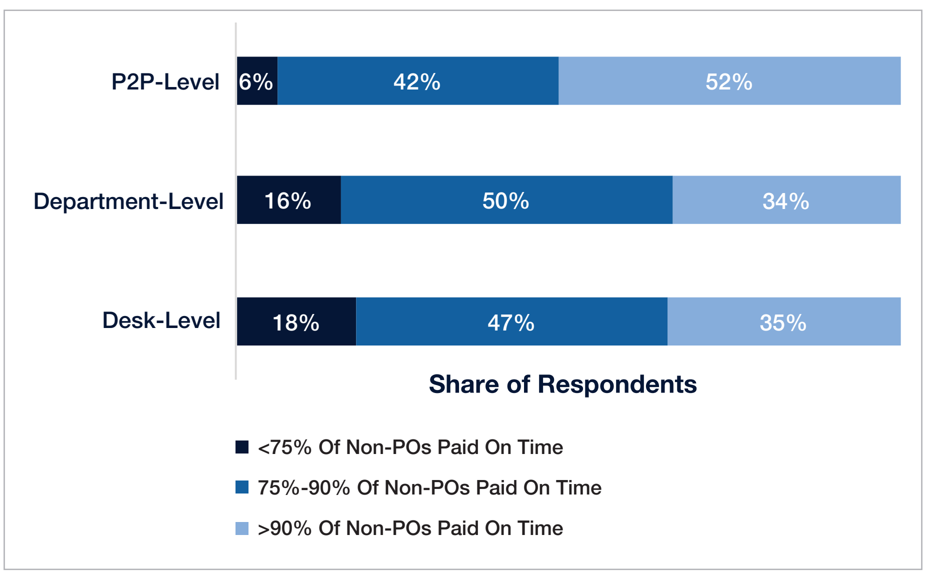
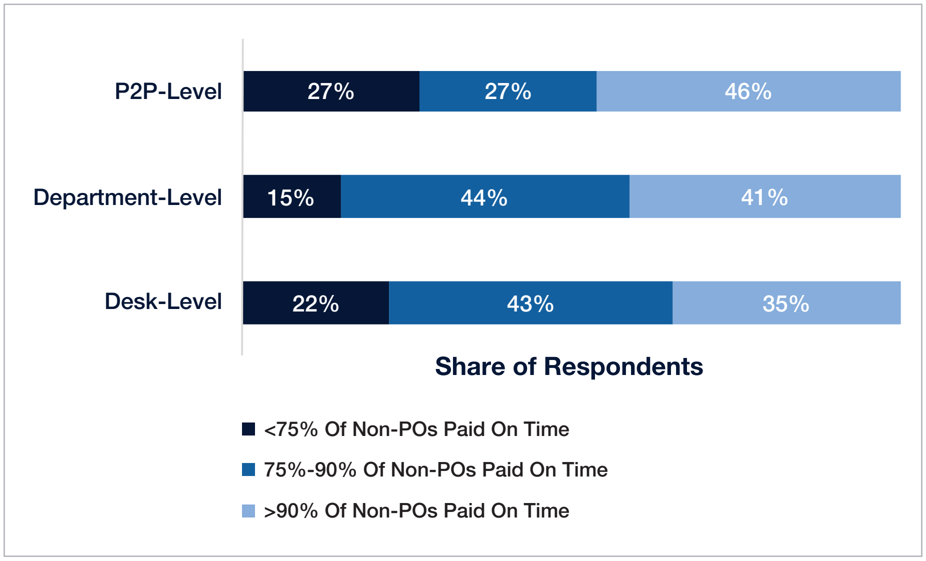


FIGURE 3. SHARE OF NON-POS PAID ON TIME



Cost Per Invoice

How much it costs to process an invoice is a time-tested way to validate your efficiency. To compare 200-plus peers on an apples-to-apples basis, only the largest expense (base labor cost) is included in our calculation. For the sake of this report, cost per invoice is most simply defined as the combined base salaries of your AP team divided by the number of invoices they process per year.

That being said, it's also important to calculate an "all in" number to compare the before-and-after of a large change (process, system implementation, or both). Consider all labor costs (benefits, variable pay, etc.), plus the full cost of running your department (any shared service costs, utilities, etc.).

FIGURE 4. COST PER INVOICE – NO AUTOMATION

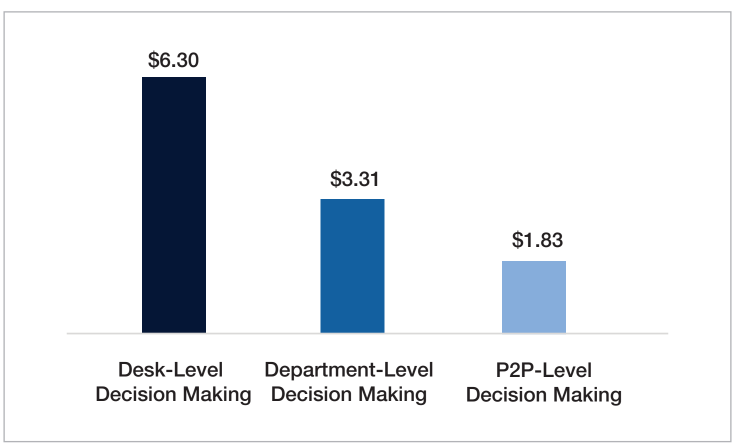


FIGURE 5. COST PER INVOICE – LIMITED AUTOMATION

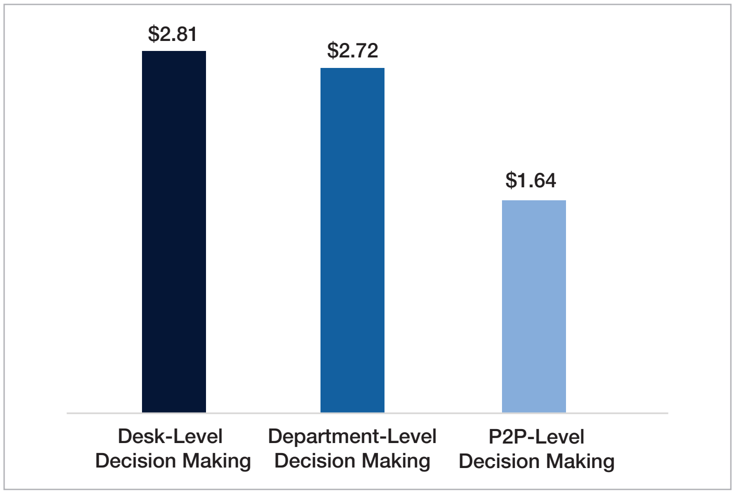


FIGURE 6. COST PER INVOICE – SIGNIFICANT AUTOMATION

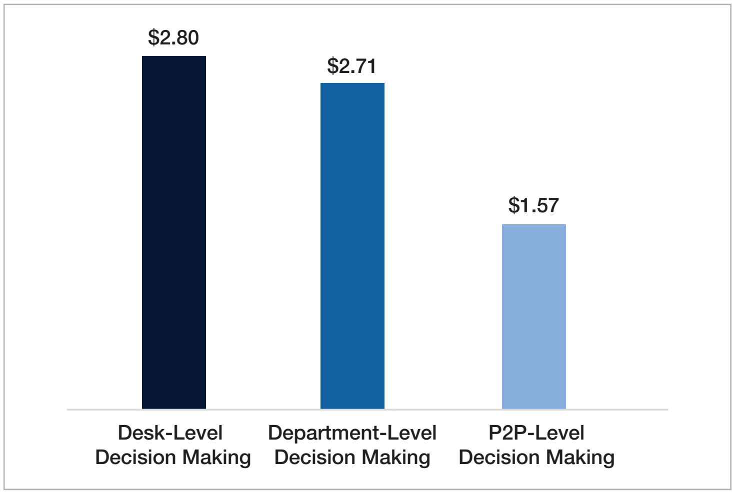
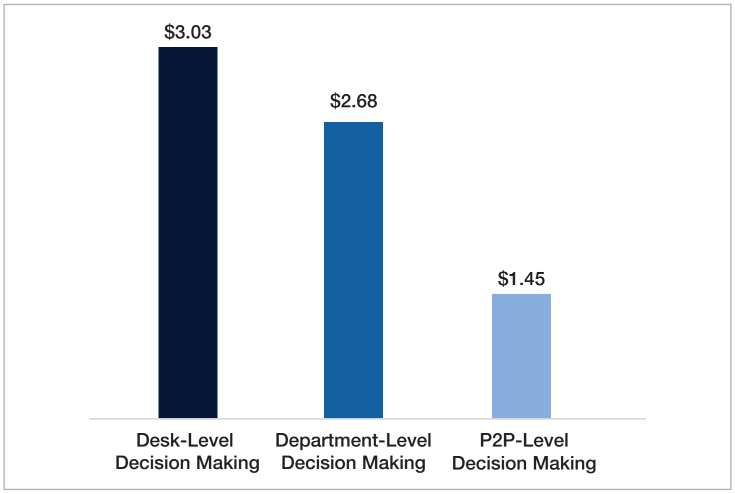


FIGURE 7. COST PER INVOICE – END-TO-END AUTOMATION



NUMBER OF INVOICES PER FULL TIME EQUIVALENTS (FTES)

When COVID-19 was deemed a global pandemic in March 2020, organizations' spending fell precipitously—causing invoice volumes to fall an average of 22%. With fewer invoices to process, fewer processors were needed, leading to an average reduction in headcount of 6%.

In 2021, invoice volume is rebounding, which is causing AP departments to strike a new equilibrium between invoices and number of AP team members. Below is the ratio of invoices to FTEs, split by levels of automation.

FIGURE 8. NUMBER OF INVOICES PER FTE – NO AUTOMATION

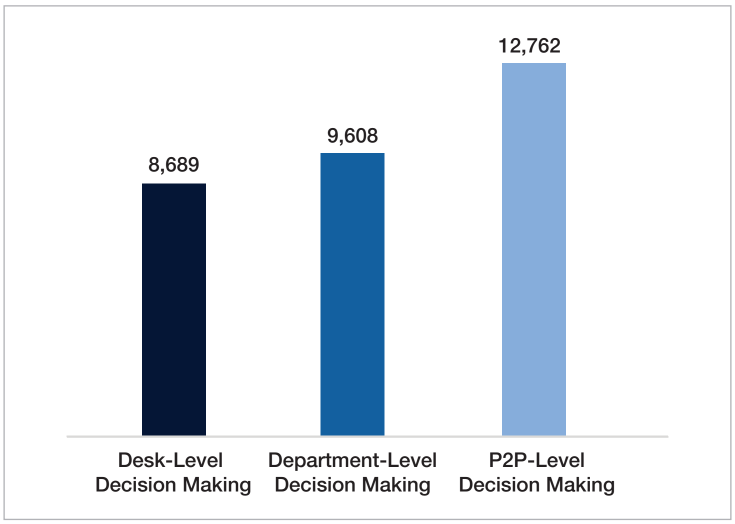


FIGURE 9. NUMBER OF INVOICES PER FTE – LIMITED AUTOMATION

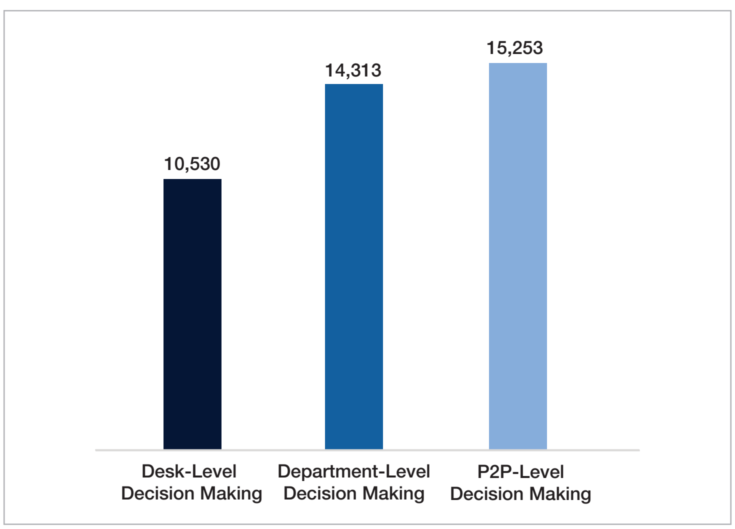


FIGURE 10. NUMBER OF INVOICES PER FTE – SIGNIFICANT AUTOMATION

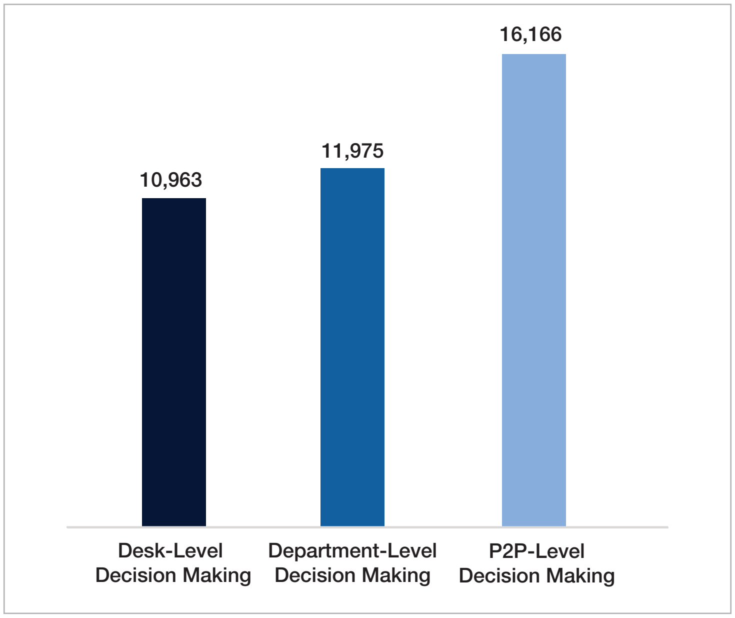
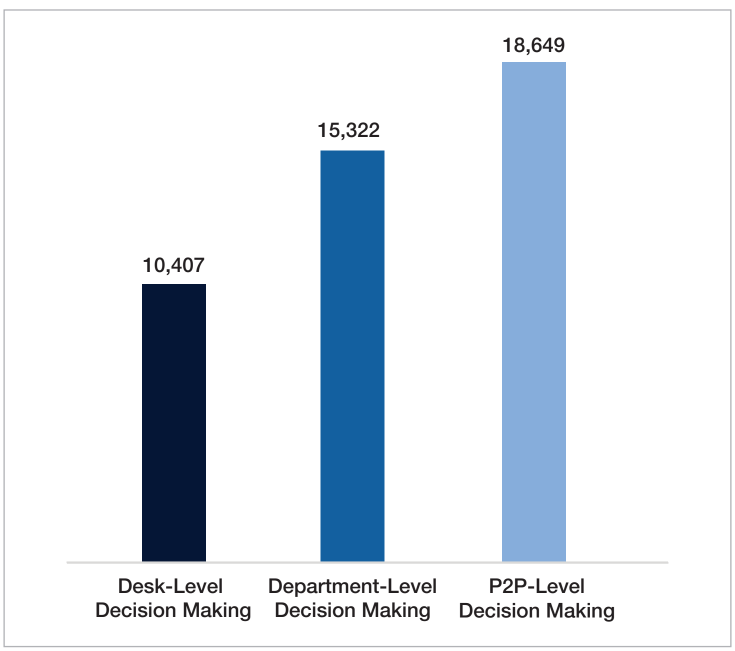


FIGURE 11. NUMBER OF INVOICES PER FTE – END-TO-END AUTOMATION



WHAT'S NEXT?

This report is part two of three. In part three, we will explore key effectiveness metrics:

- **PO first-pass match rates;**
- **Share of PO invoices with a mismatch;**
- **Share of AP transactions requiring a correction;**
- **Share of duplicate payments.**

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