

SURVEY REPORT **TRENDS IN ACCOUNTS PAYABLE**

# Analyzing Finance and AP Operations

ADMINISTERED AND VALIDATED **BY TECHVALIDATE**



commissioned by *Tipalti*



**A**ccounts Payable is a primary finance function and one of the few core business operational processes that has not yet undergone significant modernization. One would think that more companies would have found ways to optimize it. After all, processing invoices and paying suppliers are cost centers for an organization and a new approach could free up skilled finance resources for more strategic opportunities. Yet according to PayStream Advisors, even the most basic form of AP automation (invoice workflow automation), is only in place at 41% of companies.<sup>4</sup>

There is also the cost and complexities of managing the supplier payments operation. According to the APQC, manual labor constitutes 62% of the costs related to AP operations.<sup>5</sup> In addition to that burden, many companies are unlikely to be following best practices around tax and regulatory compliance, financial controls, or reporting. To get there, they'd likely need to increase their AP headcount or rethink their approach to managing this process.

To gauge attitudes and identify trends around how companies are running accounts payable, Tipalti commissioned a research study through TechValidate that surveyed accounting and finance leaders and practitioners about the state of their current AP operation and their plans to optimize and automate it. This report summarizes the analysis that was gathered. Published research for this study is available on TechValidate's research website.<sup>6</sup>

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4 <http://www.paystreamadvisors.com/resource/2015-invoice-workflow-automation-report/>

5 <http://ww2.cfo.com/expense-management/2015/06/metric-month-accounts-payable-process-cost/>

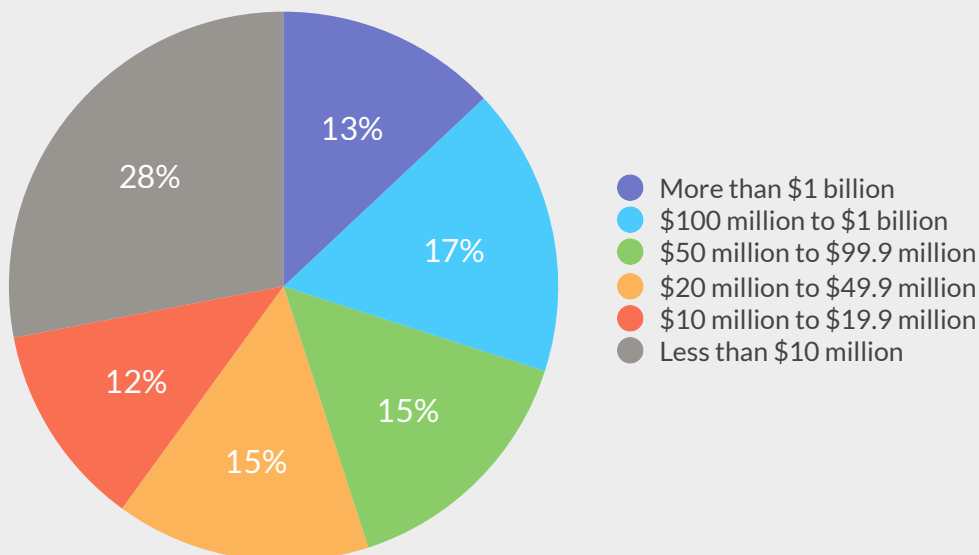
6 <https://www.techvalidate.com/product-research/tipalti-market-research>

# Survey Methodology

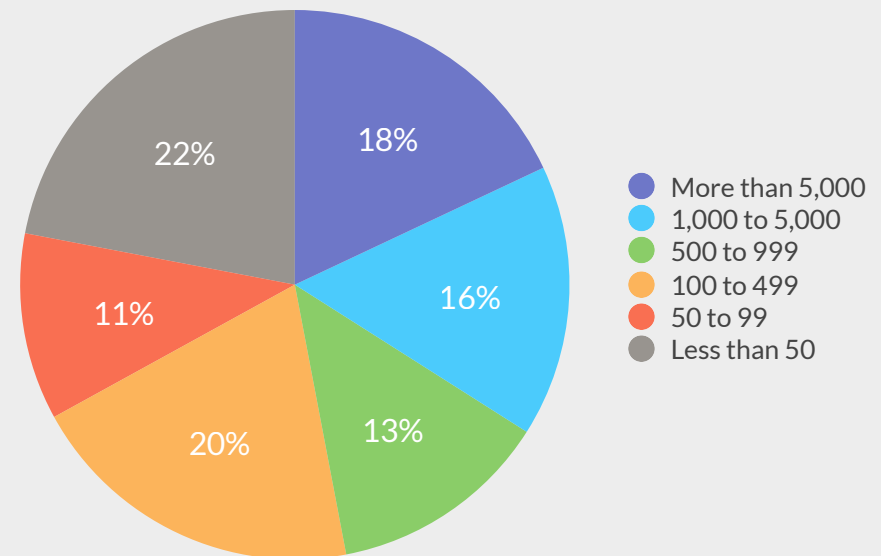
Over 200 respondents participated in the online survey, conducted in February of 2016, which was promoted by TechValidate using email and social networks. The participants were all in the finance and accounting profession at US-based, private-sector companies. Survey-takers were not compensated in any way, other than an option to donate \$5 to a charity of their choosing.

TechValidate grouped respondent profiles by Large Enterprise, Medium Enterprise, and Small Business. Company size was evenly distributed, as indicated by their annual revenue.

## What is your company's annual revenue?



## How many payments do you make per month?



Likewise, the number of payments the respondents make to suppliers per month was evenly dispersed.

Finance job titles were distributed evenly. Common titles included CFO, Controller, VP of Accounting, VP of Finance, AP Specialist.

# KEY FINDINGS

Manual effort remains the primary method for getting accounts payable done

AP Processes		AP Best Practices	
COMPLETELY MANUAL, MOSTLY MANUAL, OR 50%+ MANUAL FOR THE FOLLOWING			
Invoice Collection	60%	75%	Supplier Onboarding
Payment Approval Routing	61%	64%	Tax Form Collection and Validation
Payment Remittance	58%	50%	Tax Withholding and Reporting
Supplier Communications	61%	66%	Blacklist/AML Compliance
Payment Issue Resolution	78%	66%	Payment Reconciliation

80%

of companies that remit over 500 payments a month stated a payment error rate of 1% or higher.

44%

had an error rate of over 3%.


For companies that send payments globally to more than 6% of their suppliers, **47% had an error rate of over 3%.**

They also spend more time (31% spend over 15 hours a week on payments) and headcount (34% had 10 or more staff) to manage payments.







## ADDITIONAL INSIGHTS



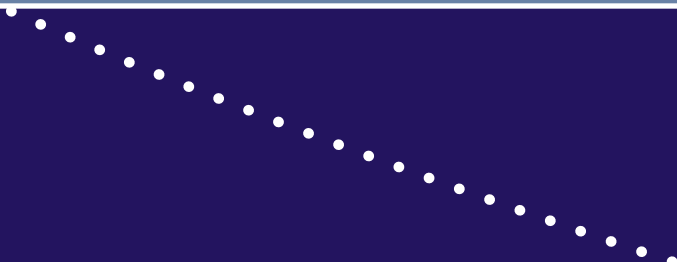

While budgetary limitations are a top reason given for not adopting AP automation technology, senior level finance executives do not think this is as important a factor in proceeding with such solution as AP practitioners.



AP practitioners on the other hand believe that budgets are a more important factor to adopting AP automation solutions.



A lack of return on investment is one of the least cited reasons for not adopting AP automation systems.



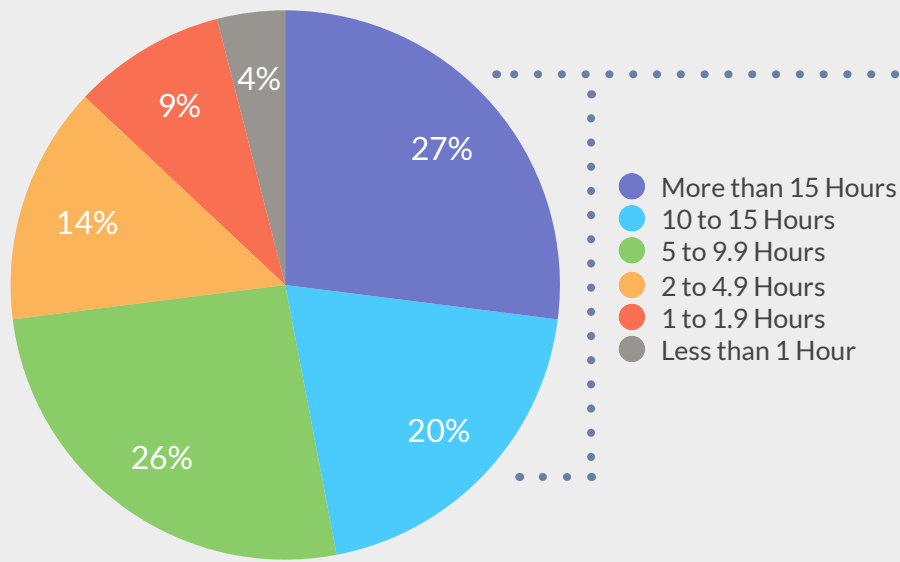
When it comes to using AP automation technologies, senior-level executives have different priorities for the organization than AP practitioners.

# Impact of Current Processes

When asked how many hours their organizations spend per week on supplier payment processes, the results were dramatic. The processes include supplier onboarding, tax form collection, invoice processing, payment remittance, payment reconciliation, supplier payment communications, and tax reporting.

## How many hours are spent managing supplier payment processes per week?

(including supplier onboarding, tax form collection, invoice processing, payment remittance, payment reconciliation, supplier payment communications, tax reporting)?



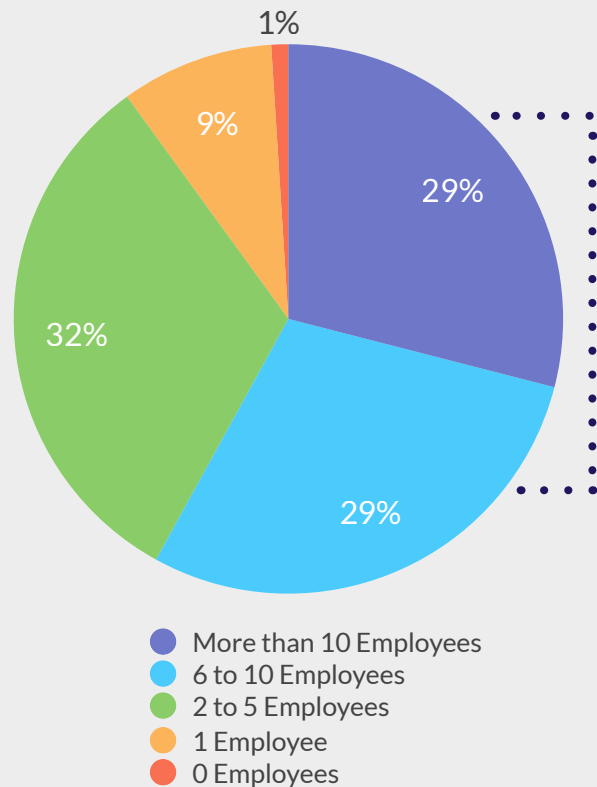
27% of respondents indicated they spend more than 15 hours a week on AP activities. Another 20% stated they spend 10 to 15 hours a week.

Seen another way, if you were to assume that one AP employee's fully loaded annual compensation is \$75,000, **15 hours a week spent on AP and supplier payment operations means that this organization spends over \$28,000 a year** managing these processes in time alone. Companies often have to either add resources to distribute work or develop internal specialists in each category.

REQUEST A  
SUPPLIER PAYMENT  
ANALYSIS

## How Many Employees Required for Accounts Payable?

From organizations who are making between 100 to 5,000 payments per month (n=136)



## Does the AP Operation Scale?

For companies making between 100 to 5,000 payments per month, 29% stated that they employ more than 10 people to handle this workload. Another 29% say it takes 6 to 10 people.

Of these businesses making 100-5,000 payments a month, suppose they can automate 38% (15 hours out of 40 in a week) of their workload. For those that staff more than 6 people, the potential savings of automating AP would be \$171,000 per year (6 people x \$75,000 total compensation x 38% automation savings), which could be reallocated to more valuable finance functions.

This aspect of accounts payable work is methodical in nature – essentially bookkeeping, remittance, and some form of “customer (supplier) support.” While there are many steps involved in making sure the organization is paying suppliers correctly, those steps can be executed through greater automation to increase productivity and accuracy. And doing so should also improve financial controls, decrease fraud, and strengthen tax and regulatory compliance too.

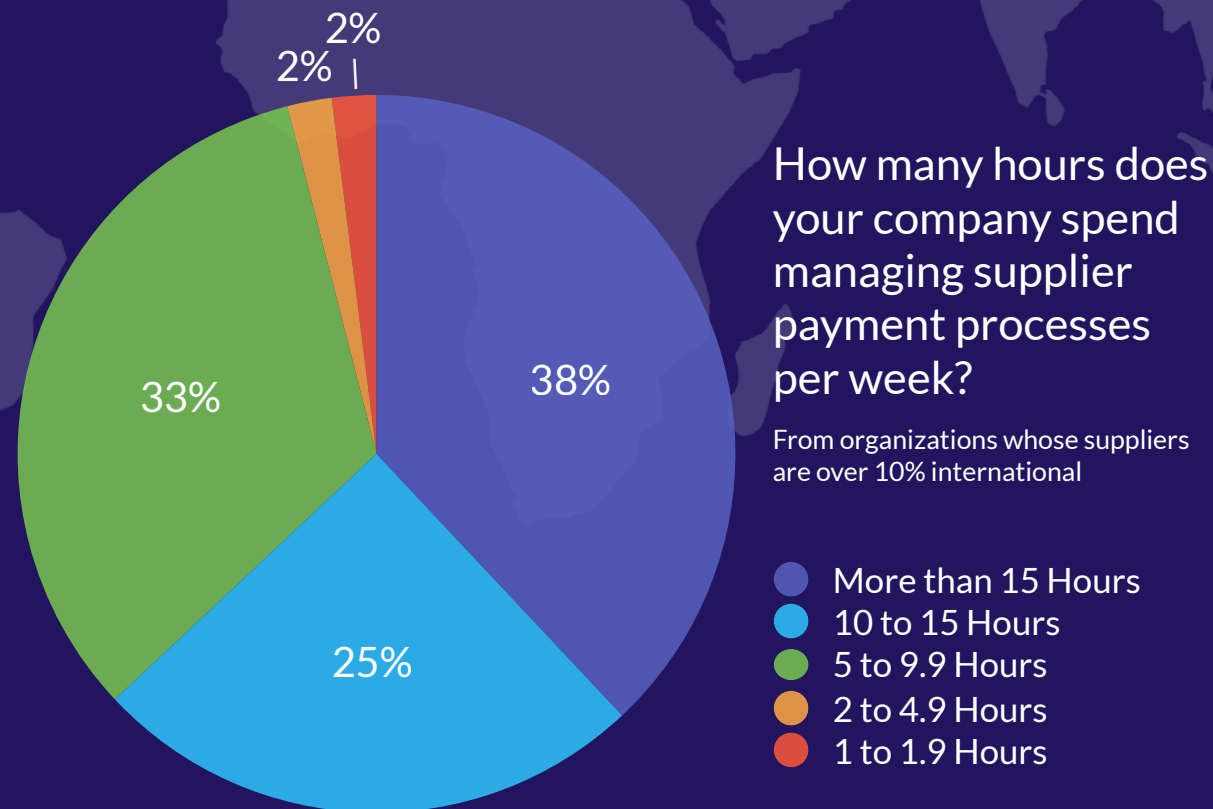




# The Pain in Paying Worldwide

Incidentally, for businesses who must contend with paying global suppliers (those outside US boundaries), the time it takes to manage the process increases. This makes complete sense since international bank routing, taxation, and issue resolution are exponentially more complex and often require much more extensive expertise to manage.

For companies who made more than 10% of payments to international suppliers, the entire payment process takes much longer for their finance teams. 38% of those companies said that it takes more than 15 hours per week. Another 25% said it took 10 to 15 hours. And 33% stated supplier payments took 5 to 9.9 hours a week.

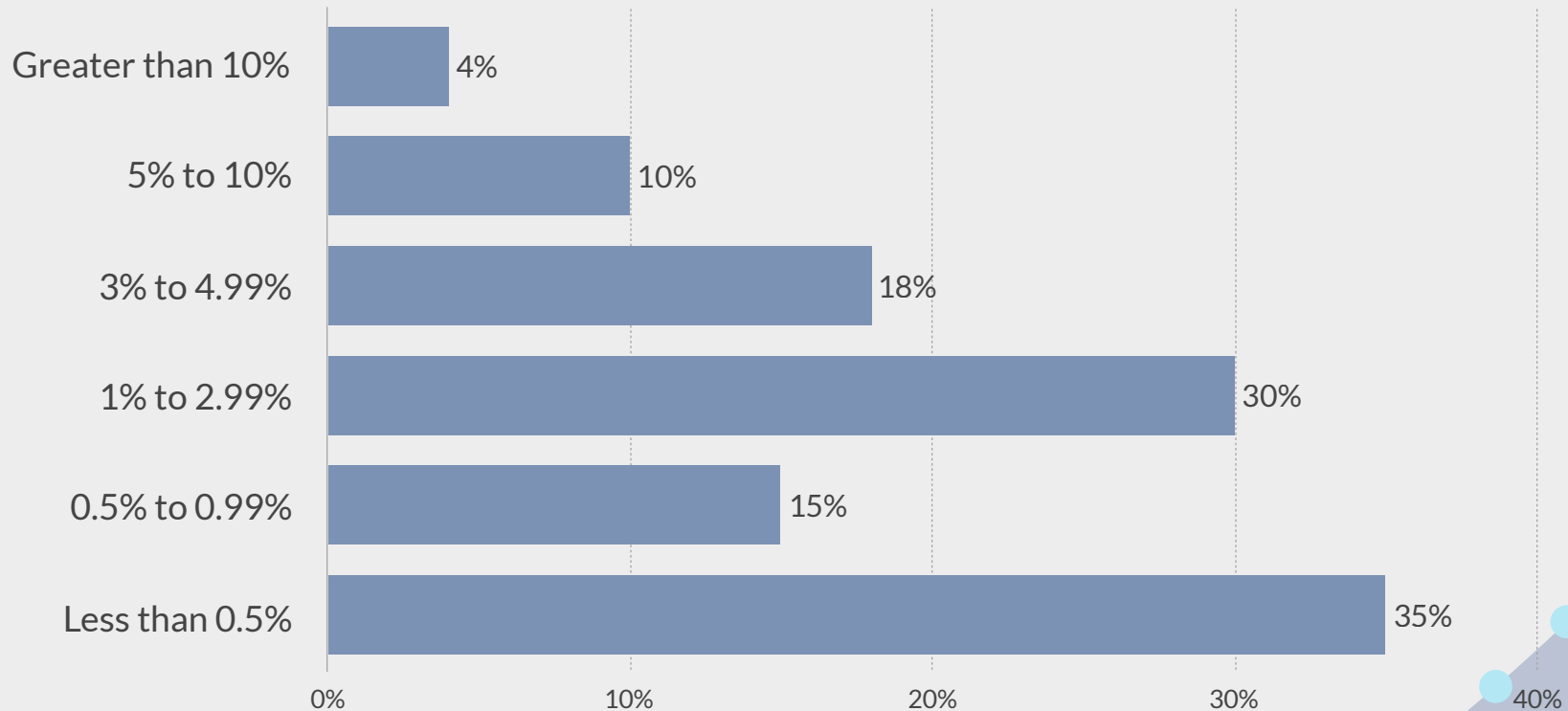




# The Terror of Errors

Payment errors figured prominently in this survey. Nearly 30% of respondents said their error rate fell between 1% to 2.99%. 32% of respondents reported an error rate of 3% or higher, including 14% with an error rate of over 5%.

What percentage of payments result in an error where you must attempt to repay a supplier?



## Cost per Error Analysis

Even at a conservative 1% (while many enterprises face a much higher error rate), payment accuracy matters. Higher error rate lead to higher costs. Let's say an organization commits 10 payment errors a month. If we assume the bank will charge an investigation fee and a cost to re-submit payment (e.g. stopping checks, wire charges, etc.), that amounts to \$100 per error or \$1,000.

But that doesn't include the time spent by an employee to deal with the error. If it takes an hour to identify the error, investigate the root cause, communicate with the supplier, and resolve the error by resubmitting payment, there is a labor cost around those efforts.

**CALCULATE YOUR  
ERROR COSTS**

1 Hour to Resolve @ \$36 / Hr.  
(~\$75K Salary)

+ \$100 Bank Fees  
(investigation + re-transmission)

= \$136 per Error

10 Errors / Mo. = \$16,320 / Yr.

30 Errors / Mo. = \$48,960 / Yr.

Assuming the fully loaded compensation of that employee is \$75,000 per year, the total annual cost of errors is \$16,332 including bank fees and labor. The real cost per error is \$136.

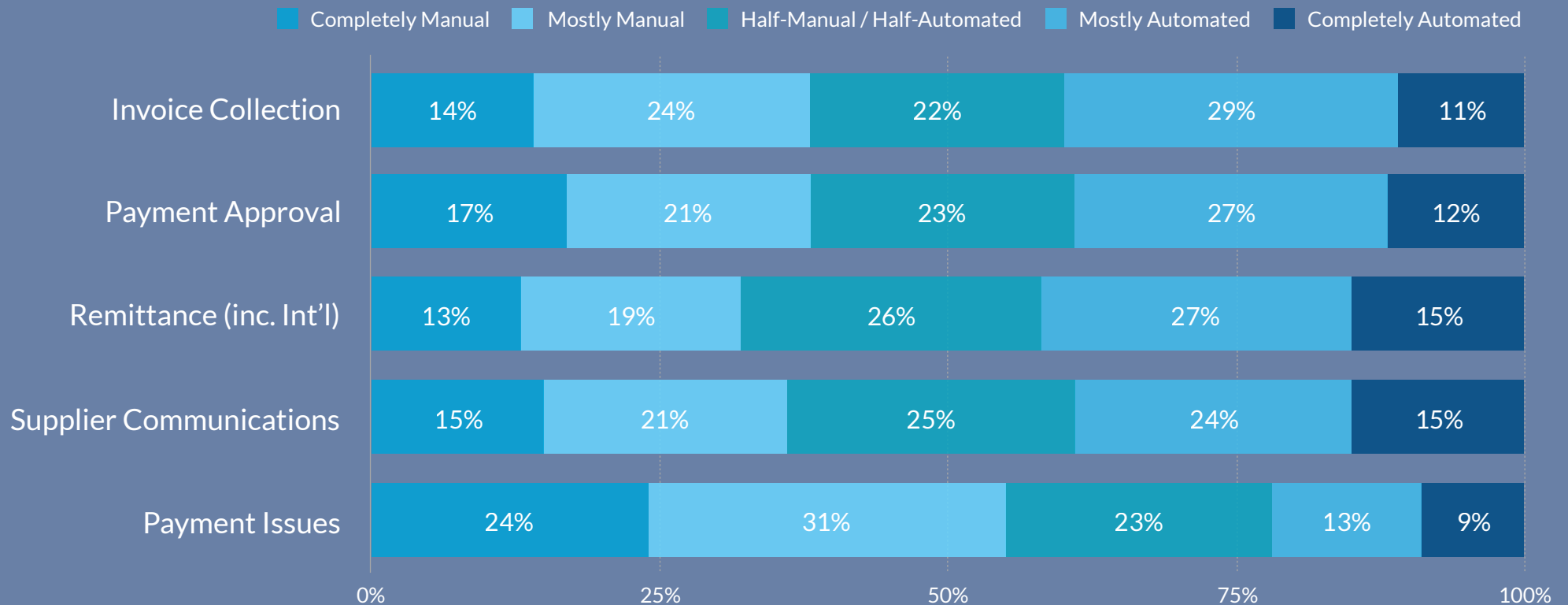
10 errors per month does not seem like a hardship for a company making 1,000 payments per month. That's a 1% error rate. But if the company makes 3,000 payments per month at a 1% error rate, the total cost of errors for the year is \$48,984.

# Current Accounts Payable Processes

The study found that in the core AP steps of invoice collection, payment approval, remittance, payment status communication, and resolving payment issues, processes are manual or mostly manual. In fact, they are fairly consistent across the various disciplines, company sizes, and roles.

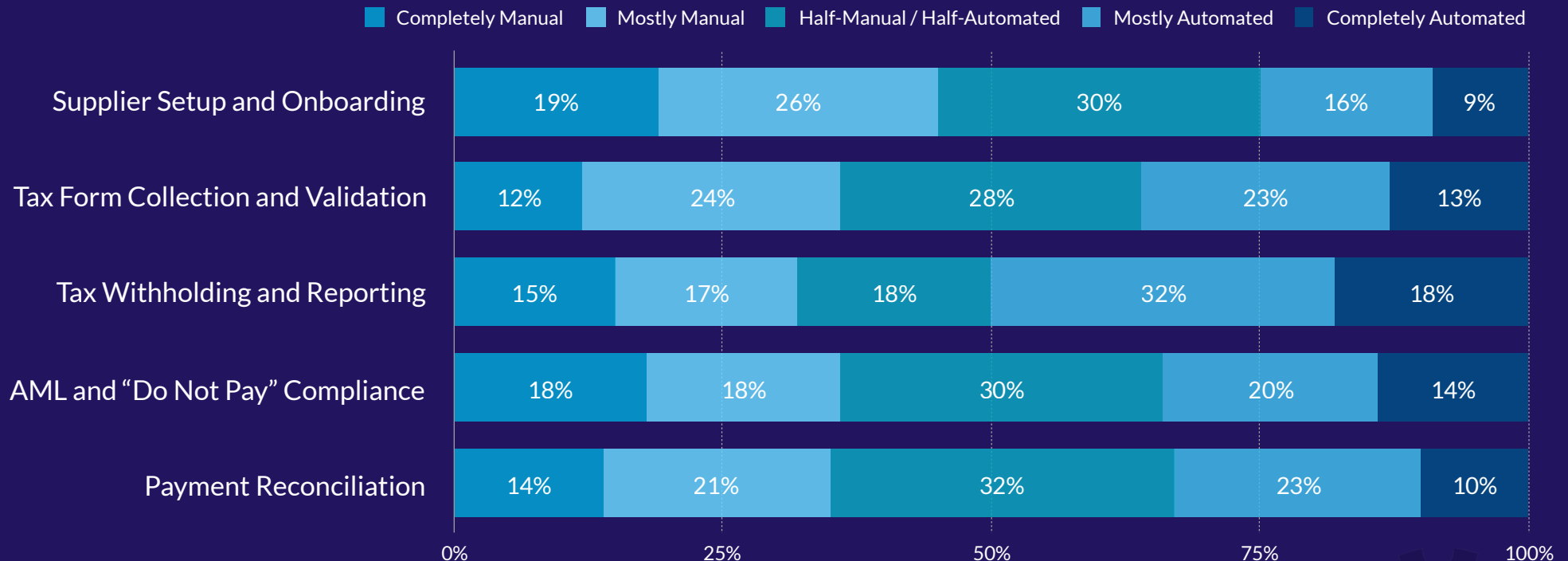
In particular, handling payment issues is a largely manual process. When a supplier payment goes well, a process may seem adequate. However, when there is an issue, the entire AP process slows down – i.e. the process “feels” more manual, because it requires greater intervention.

## How automated are your organization's current supplier payment processes?



# Current State for Automating Best Practices

How automated are your organization's current AP best practices?



The survey also asked respondents how well mapped each element of their supplier payment process was to accounts payable industry best practices. Best practice areas surveyed included supplier onboarding, tax form collection and validation, tax withholding and reporting, anti-money-laundering (AML) checking, and payment reconciliation.

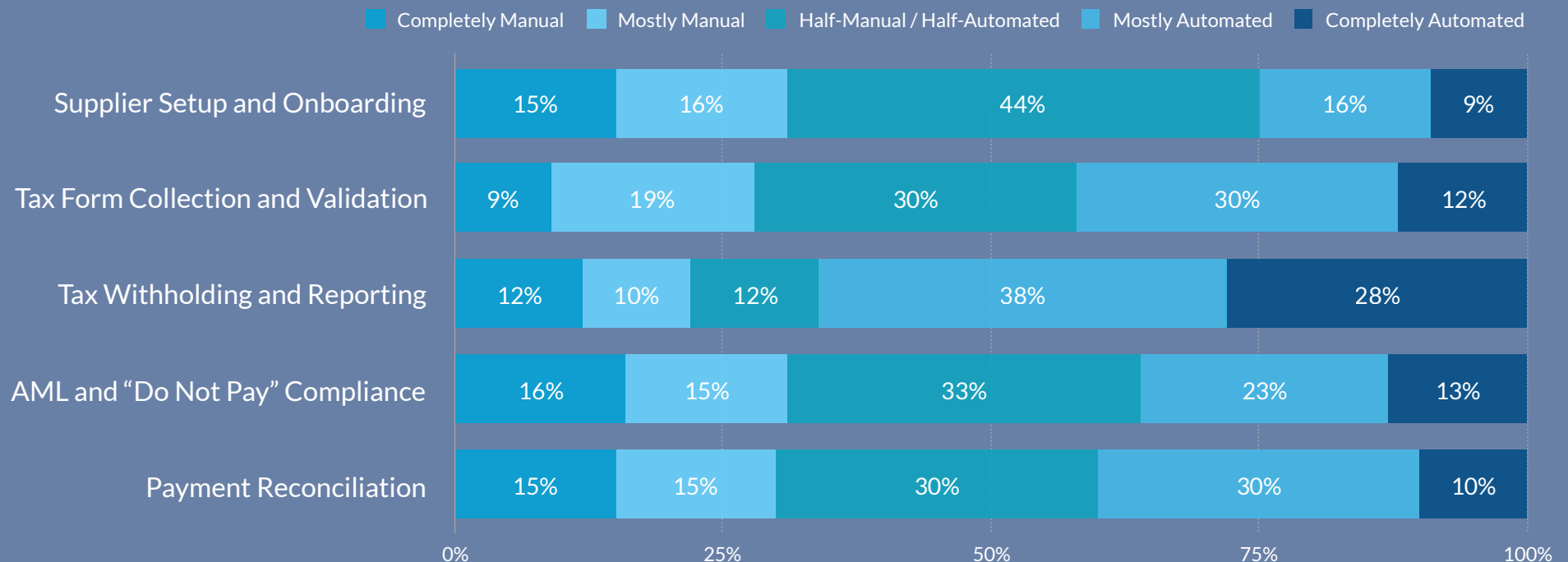
At first glance, the results for best practice achievement seem similar to the results of the payment processes. However, when filtering to contrast senior finance title responses to those of AP practitioners, the gap is significant.

Senior finance and accounting executives consistently are more likely to believe these best practices are automated whereas the practitioners are more likely to say they are manually performed.

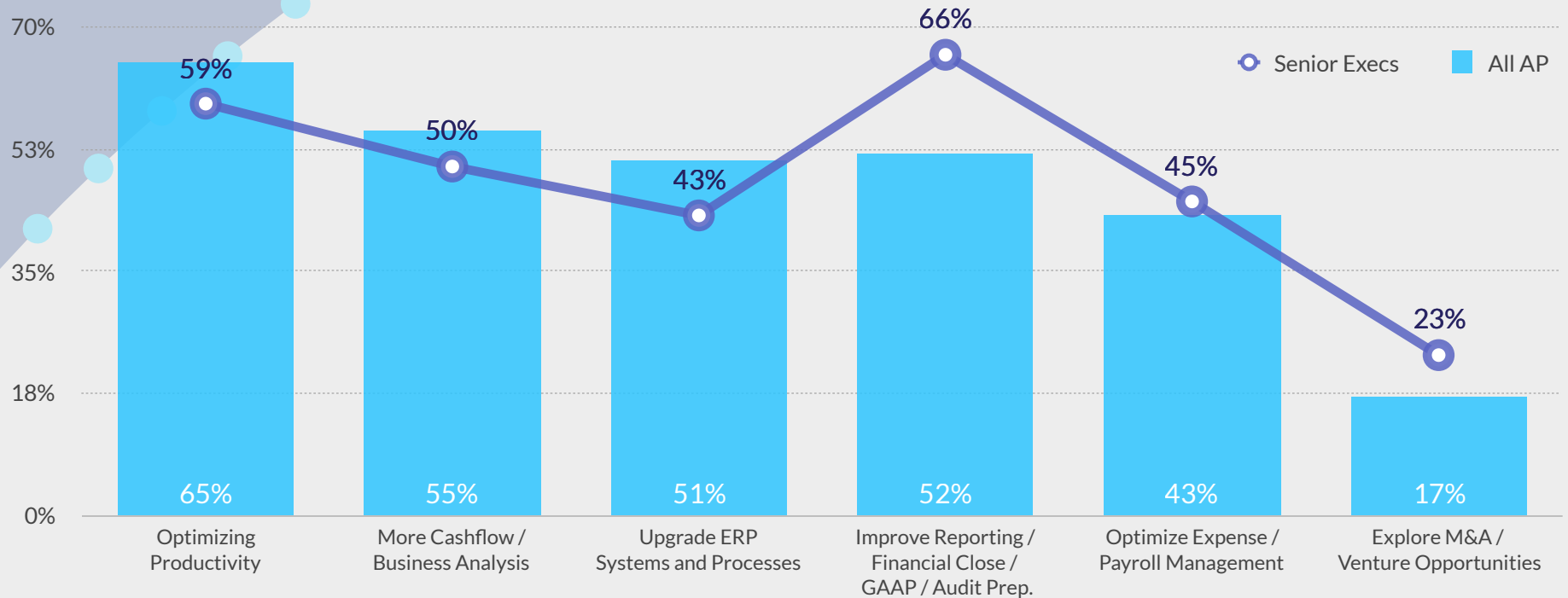
This finding is jarring. Best practice supplier payments processes are critical to manage financial, tax, and regulatory risk. Automated supplier onboarding drives accurate data through the system from the very beginning and helps avoid

payment issues. Tax form collection and reporting is growing in importance as the US Treasury enforces FATCA (Foreign Account Tax Compliance Act) regulations. AML policies are being increasingly enforced and not managing this effectively increases an organization's risk exposure. Lastly, proper payment reconciliation is vital to getting strategic decision-focused data. All of these above AP best practices help reduce fraud.

## How automated are your organization's current AP best practices? (Senior Executives)



## What Would Organizations Focus on with Greater AP Automation



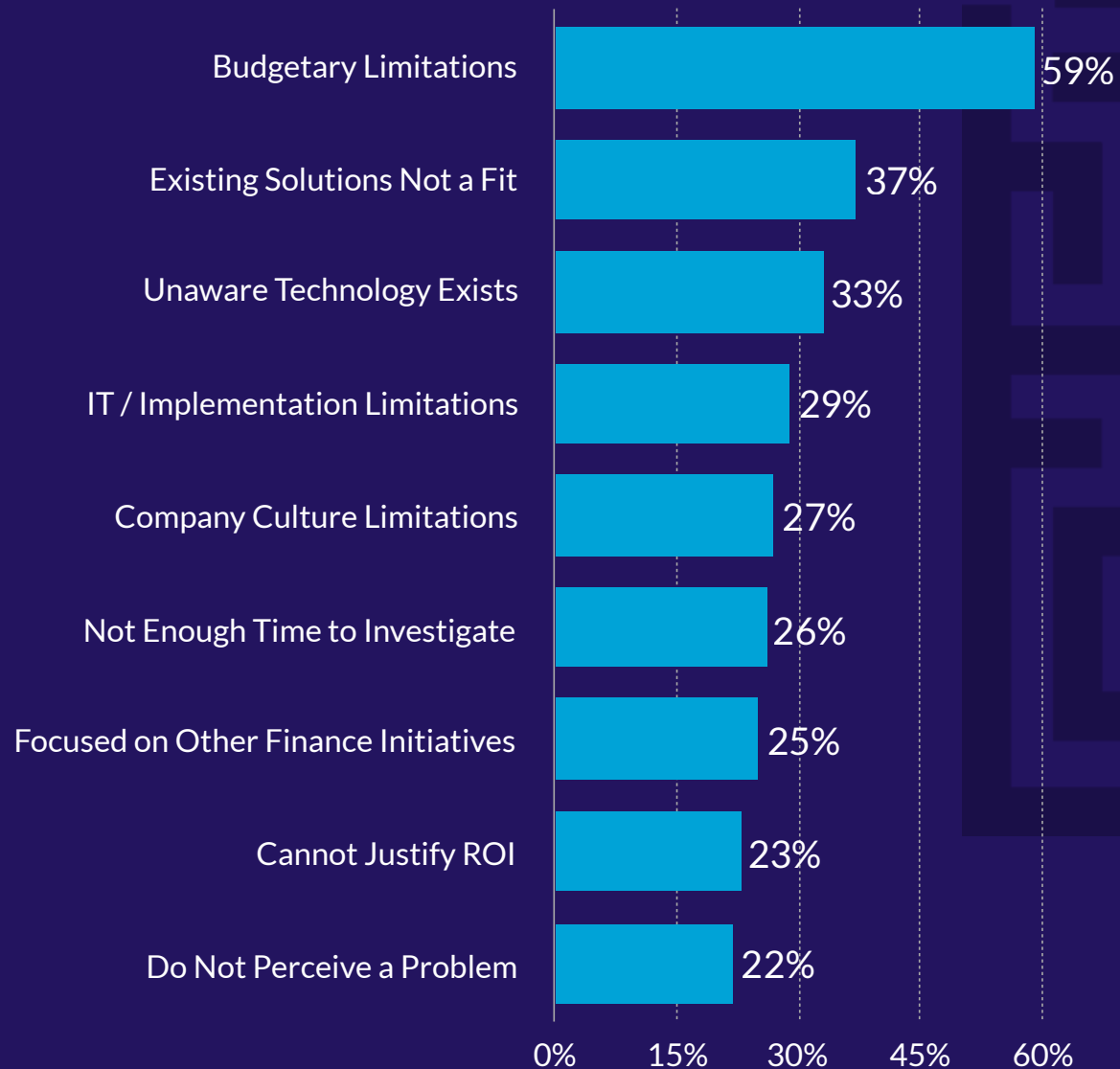
AP automation can enable a sea change within a finance organization. According to this survey, if their AP operations were more automated, 65% of finance professionals would use the time saved to help optimize business productivity. 51% would improve overall accounting and ERP systems and processes with the time their reclaimed from automating their AP and supplier payments workflow.

Organizations would also focus more time improving the financial performance

of their company including conducting more cash flow and business analysis (55%), as well as improving their financial close and reporting (52%). Financial reporting was identified as an even more important area to senior members of the organization (controllers, CFOs, finance directors, etc.) with 66% reporting that they would prefer to focus on closing the books more effectively rather than on managing accounts payable and supplier payment operations.

What's unique about all these initiatives identified is that they require more strategic and analytical effort than the methodical processes of supplier payments. It's essentially the difference in running a true finance function versus accounting operations. Finance efforts are generally more strategic in nature, require greater inquisition and creativity, and make a much greater impact on the overall direction of the business.

# What Are the Impediments to Change?



According to Mastercard<sup>4</sup>, 75% of companies don't employ automation for supplier payments. So if AP automation is as valuable a tool as we believe, why aren't more companies employing it within their finance organization?

Based on responses to this survey, the overwhelming factor is budgetary limitations. 59% of all respondents indicated that budget may impede adoption with the second highest reason being solution fit (37%).

While every organization is budget-conscious, cost is often not the true impediment. If an organization needs to solve a problem and can demonstrate a return on investment, there should be an adequate business case to deploy AP automation. Interestingly, only 22% of total respondents indicated that organizations don't perceive a problem, so there is pain.

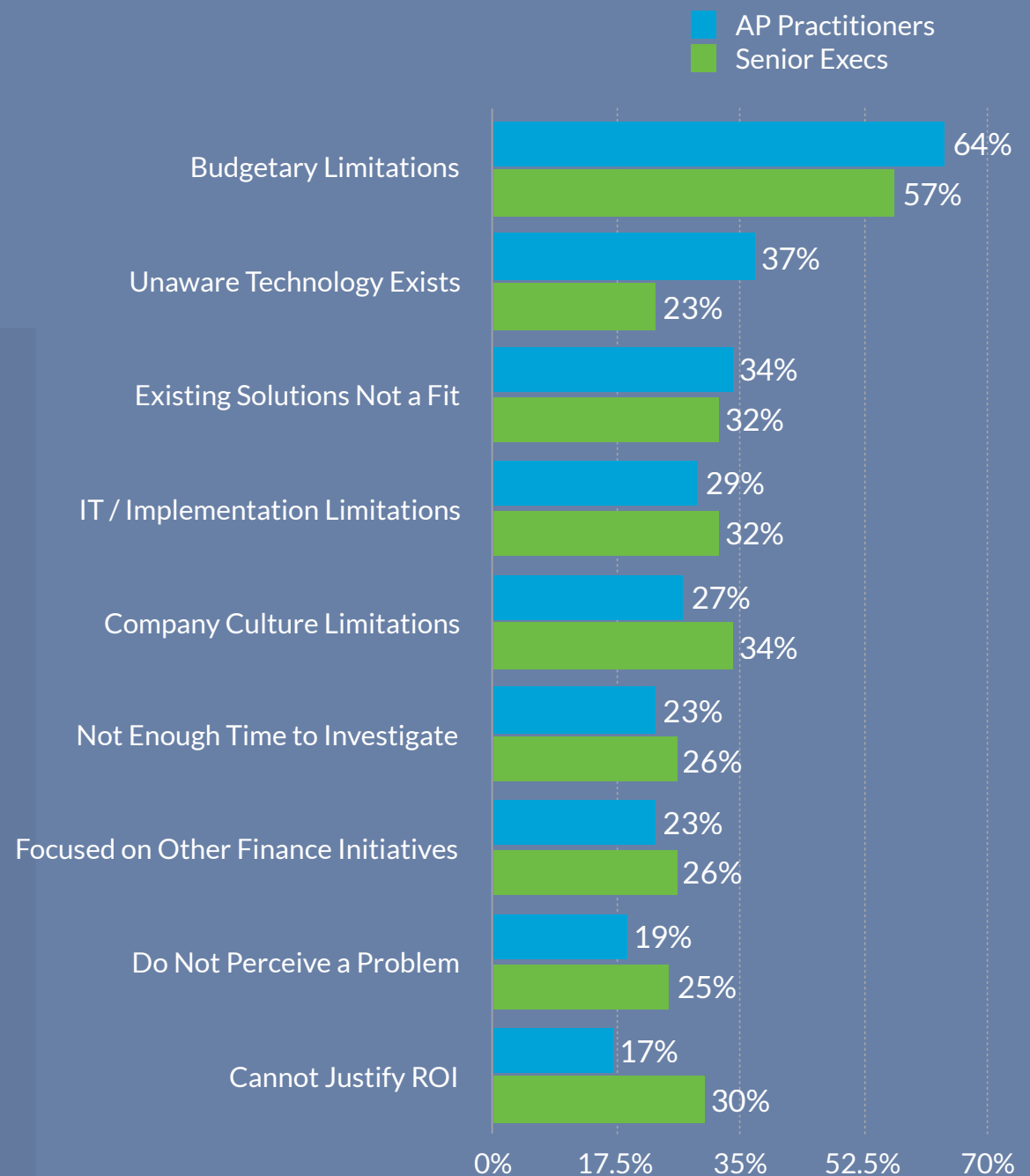
<sup>4</sup> "Creating Payment Energy, Unlocking the value of B2B payment networks" - September 2014, MasterCard



When splitting the results, the survey shows that AP practitioners believe that budget restrictions are a greater restriction to adopting AP technologies. 64% of AP practitioners say AP automation can't be paid for while a lower 57% of senior finance executives say this is a limiting factor.

For senior finance respondents, the issue of company culture was also relevant. The responses seem to indicate that senior management is more willing to consider automation, even more than their staff. Again, if you can solve a problem and save money, we know organizations can find the budget to act.

This is backed up with research from the Institute of Finance and Management (IOFM) in a survey where 60% of controllers anticipated that their business would increase its capital budget for accounts payable process improvement projects in 2015.



**REQUEST A SUPPLIER  
PAYMENT ANALYSIS**

# Risk Realizations

There are risks for not adopting or procrastinating adoption of AP automation technologies:

- Lack of automation equals manually-culled, inaccurate payment reconciliation data, which is both a financial control and compliance risk and can lead to misinterpreted reporting data.
- Fraud controls around invoice approvals and payment disbursement become harder to manage.
- Risk of tax and regulatory penalties increase when the right processes and system are not put in place.
- Errors in payments lead to damaged supplier relationships and additional waste and costs (such as bank investigation fees and additional transaction costs) related to fixing those errors.
- The viability of hiring additional knowledgeable accounts payable specialists becomes a greater burden with decreasing returns on investment as the company grows.
- Standardization of best practices is really the best way to achieve best practices. Once rules and processes are established, it should be straightforward to handle them via an automated system. That is the idea of software: replace manual, operational processes with technology that scales.



# Recommendations

As this report indicates, today's AP and supplier payments process is highly manual and extremely time-consuming. Finance executives and AP experts alike want to improve efficiencies so they can work on higher value, more strategic initiatives. AP automation is clearly valued and can yield a return on investment.

But finance leaders are not clear on how technologies can help them manage AP better and there is confusion around whether and how to get the budget approved to make the change. Proving ROI for automating the AP and supplier payments workflow does not seem to be the problem assuming financial leadership supports the project and they can find the right technology fit.

The definition of what "AP automation" means is muddy. There are certainly point-solutions that exist, but finance professionals want to streamline the many standard supplier payment best practices, not just one-off processes like invoice collection.

**Organizations should take a more holistic approach to accounts payable and look to answer the following questions:**

- What are all the accounts payable and supplier payments-related processes we manage today? Which ones are the most inefficient and error and risk-prone, and how much time do we spend on each of these steps? How is each step interconnected with the other?
- What is our current cost of operations related to the entire supplier payments operation (including supplier onboarding, invoice approvals, remittance, communications, and reconciliation)?
- Before defaulting to a budgetary barricade, have we done a formal ROI analysis of how technological solutions can benefit our accounts payable effort?
- Are senior-level executives and AP practitioners on the same page as to what AP automation means for the supplier payments operation?
- Have we fully employed best practices to ensure accuracy, compliance, risk reduction, and efficiency in supplier payments?
- Are there finance and accounting strategies and efforts we would prefer to adopt if we could automate our manual accounts payable processes?
- What are business initiatives our finance team can advance with time freed up from a successful AP automation initiative?

## Summary

“Solution fit,” of which 37% of respondents said impedes adoption, may point to the greater issue. Most AP technologies today have largely only resolved one or two processes - invoice processing, tax reporting, etc. Simply solving one aspect of the entire supplier payments workflow may not deliver enough value to warrant a change. It may just be “kicking the can down the road” leading to supplier payments issues later. However, when looking at the entire supplier payment effort, the more that an AP automation solution can streamline the entire-end-to-end process, the more value it can deliver. In addition, a truly holistic AP automation platform will enhance overall financial controls and compliance.

The survey profile data is fascinating because it highlights how inconsistent the view is between various roles in the organization. On one hand, the “ground troops” definitely feel a lot of pain, but either are not aware that the issue can be fixed or don’t believe that they have budget flexibility to make a change. Meanwhile, the “generals” are willing to drive productivity improvements, but are looking for the right solution fit to help improve their AP process in a holistic way.

What organizations need to do is recognize that this disparity exists and realize that they have an opportunity to make a change to benefit everyone by increasing productivity, improving accuracy, and decreasing workload.



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