Accounts Payable Processes

Royce Grayson Morse, *IOFM Managing Editor*

TABLE OF CONTENTS

TABLE OF FIGURES

INTRODUCTION

In the first IOFM 2022 benchmarking report, "The Benefits of Benchmarking," we discussed how the benchmarking process can be used by AP professionals to help improve their operations in a time of global recession, a labor shortage and continuing post-pandemic disruption. We then provided an overview of the survey participants.

In this second report, we'll discuss the processes now in use by those respondents. This will provide some context for you so you can begin to determine where your organization fits into the AP continuum in terms of automation, outsourcing, the way your department is organized, and so on. This is an important first step in getting your bearings for initiating a benchmarking project.

Comparing yourself to other organizations most like yours is the key to obtaining realistic and achievable goals for improvement. Understanding the processes in use by AP participants will shed light on how their departments are structured and managed so you can begin to consider next steps.
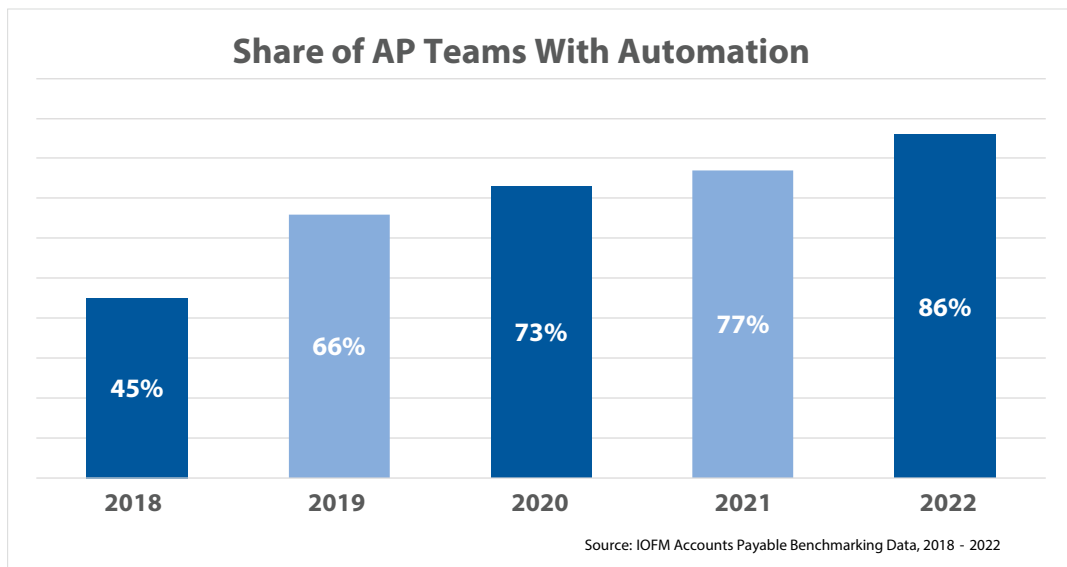
Automation

During recent years, with many people needing to work from home, it's become more important than ever to embrace automation. This has allowed AP staff to share information, obtain approvals and generate payments without the need to be in an office and circulate paper.

IOFM has tracked the trend toward automation in its benchmarking surveys dating back to 2018. This year, 86 percent of survey participants reported having at least some automation. This is nearly double the rate of AP automation reported in 2018, and shows a significant uptick since last year.

FIGURE 1. AP TEAMS WITH AUTOMATION (2018–2022)

Share of AP Teams With Automation

45%	66%	73%	77%	86%
2018	2019	2020	2021	2022

Source: IOFM Accounts Payable Benchmarking Data, 2018 - 2022

Of course, automation can perform a number of different processes. What functions does AP typically automate? At the top of this list is invoice approvals, with more than half of respondents embracing electronic routing and signoff on invoices, thereby preventing the time-consuming and inefficient movement of paper or emails among the various approvers.

Another half of survey participants automate one or more of these tasks: data capture, invoice receipt, payments and PO-to-invoice matching. These activities comprise the essential tasks of most accounts payable teams.

Other tasks that are more focused on financial reporting than invoice processing, such as reconciliation, dashboarding and audits, are automated by one in five organizations or even fewer.

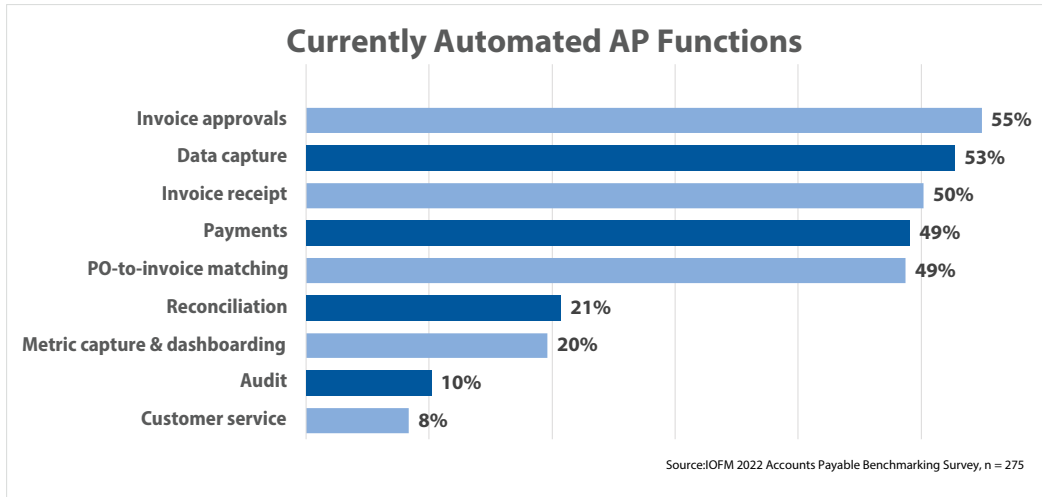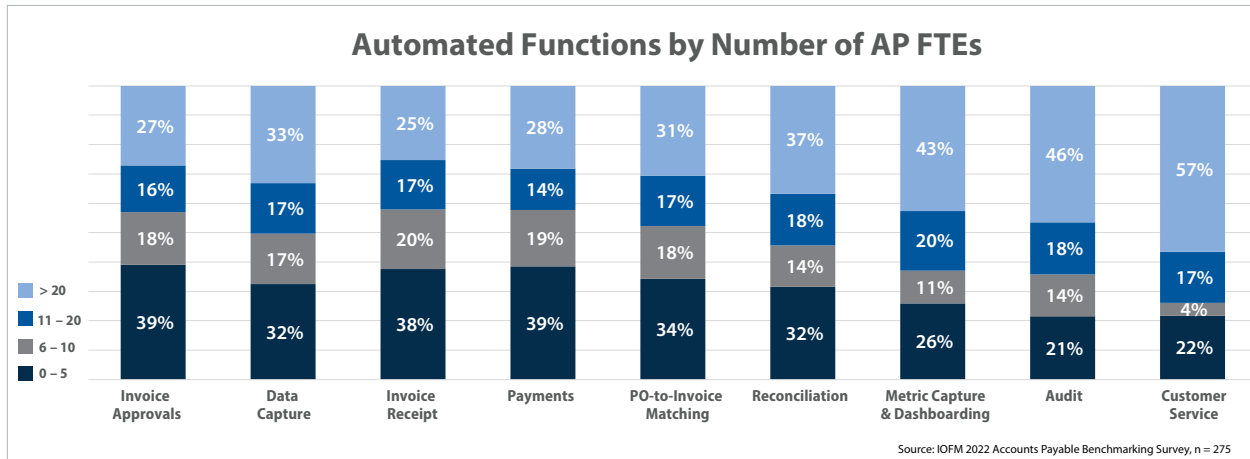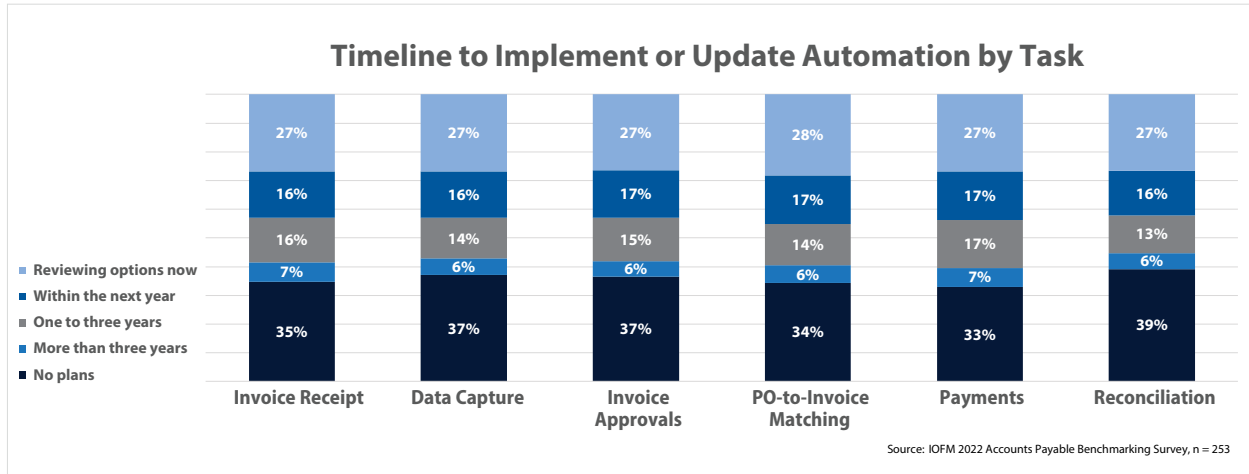**FIGURE 2.** FREQUENCY OF CURRENTLY AUTOMATED AP FUNCTIONS, ALL RESPONDENTS

Currently Automated AP Functions

Function	Percentage
Invoice approvals	55%
Data capture	53%
Invoice receipt	50%
Payments	49%
PO-to-invoice matching	49%
Reconciliation	21%
Metric capture & dashboarding	20%
Audit	10%
Customer service	8%

Source: IOFM 2022 Accounts Payable Benchmarking Survey, n = 275

FIGURE 3. AUTOMATED FUNCTIONS BY NUMBER OF AP FULL-TIME EMPLOYEES

Automated Functions by Number of AP FTEs

	Invoice Approvals	Data Capture	Invoice Receipt	Payments	PO-to-Invoice Matching	Reconciliation	Metric Capture & Dashboarding	Audit	Customer Service
> 20	27%	33%	25%	28%	31%	37%	43%	46%	57%
11 – 20	16%	17%	17%	14%	17%	18%	20%	18%	17%
6 – 10	18%	17%	20%	19%	18%	14%	11%	14%	4%
0 – 5	39%	32%	38%	39%	34%	32%	26%	21%	22%

Source: IOFM 2022 Accounts Payable Benchmarking Survey, n = 275

We also correlated which AP tasks respondents have automated with the number of full-time AP staff members. Surprisingly, small organizations tend to be about as automated as their larger counterparts except for when it comes to financial reporting, auditing and customer service. However, this may be due to the downsizing of staff that many companies experienced during the pandemic. For already small departments, automation may have become even more essential than before.

We also queried respondents about their timelines for implementing or upgrading automation for the six most commonly automated tasks. The results showed consistency among the various processes, with about a third of total respondents indicating they had no plans to update any of their functions. However, for all tasks, more than a fourth of survey participants are currently in the process of reviewing their automation options to implement or upgrade them soon.
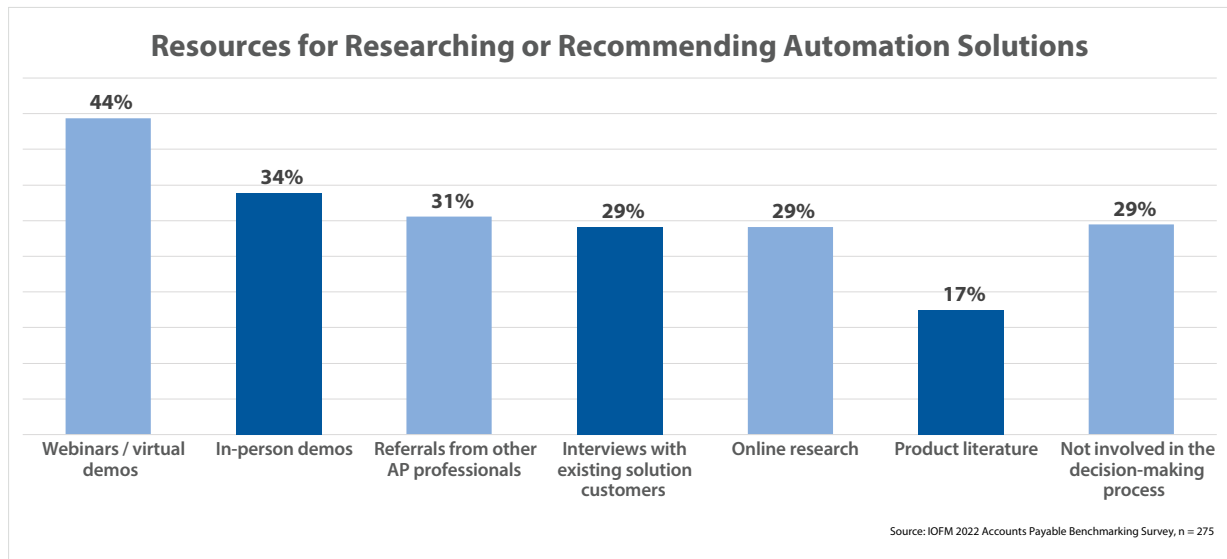
FIGURE 4. PLANS TO IMPLEMENT OR UPGRADE AUTOMATION TASKS, ALL RESPONDENTS

Timeline to Implement or Update Automation by Task

Legend:
- ■ Reviewing options now
- ■ Within the next year
- ■ One to three years
- ■ More than three years
- ■ No plans

	Invoice Receipt	Data Capture	Invoice Approvals	PO-to-Invoice Matching	Payments	Reconciliation
Reviewing options now	27%	27%	27%	28%	27%	27%
Within the next year	16%	16%	17%	17%	17%	16%
One to three years	16%	14%	15%	14%	17%	13%
More than three years	7%	6%	6%	6%	7%	6%
No plans	35%	37%	37%	34%	33%	39%

Source: IOFM 2022 Accounts Payable Benchmarking Survey, n = 253

For those respondents who were involved in either researching or recommending automation solutions, the greatest number of survey participants — more than four in 10 — said webinars or virtual demos were an important resource used in that process. A third said they participated in in-person demos, and about three in 10 looked both to other users' experiences and did their own online research.

The least-consulted resource was solution providers' product literature. This makes sense, given that such material generally offers a high level discussion of functionality and can't address the particular requirements of each potential user. While general product information is a good place to start your research, being able to see the software in use and ask questions of actual users who have experience with it can better reveal its suitability for your individual needs.

FIGURE 5. RESOURCES USED IN RESEARCHING OR RECOMMENDING AUTOMATION

Resources for Researching or Recommending Automation Solutions

Webinars / virtual demos	44%
In-person demos	34%
Referrals from other AP professionals	31%
Interviews with existing solution customers	29%
Online research	29%
Product literature	17%
Not involved in the decision-making process	29%

Source: IOFM 2022 Accounts Payable Benchmarking Survey, n = 275

Structure and Strategy

One important factor in establishing which benchmarking data is suitable for you to use involves how your accounts payable operation is structured in terms of decision making. This potentially impacts such things as productivity and error rate, which will be discussed in more detail in the next report.

AP typically makes decisions about how to do its work in one of three main ways: desk level; department level; or end-to-end level. In a desk level operation, employees make their own decisions about how to prioritize their work and structure their days. Department level decision making is when processors are all consistently prioritizing the same things and working to a department-wide standard. End-to-end level processing means that priorities are determined by looking at the work from a higher-level, procure-to-pay perspective.

Smaller organizations more often tend to rely on the desk level method, with each person deciding how to do their own work. However, in larger organizations with 20 or more individuals working in accounts payable, over a third are aligned in an end-to-end procure-to-pay process. This is understandable, given that such departments handle greater invoice volumes and the consequences of inefficiency can be extremely costly and problematic.

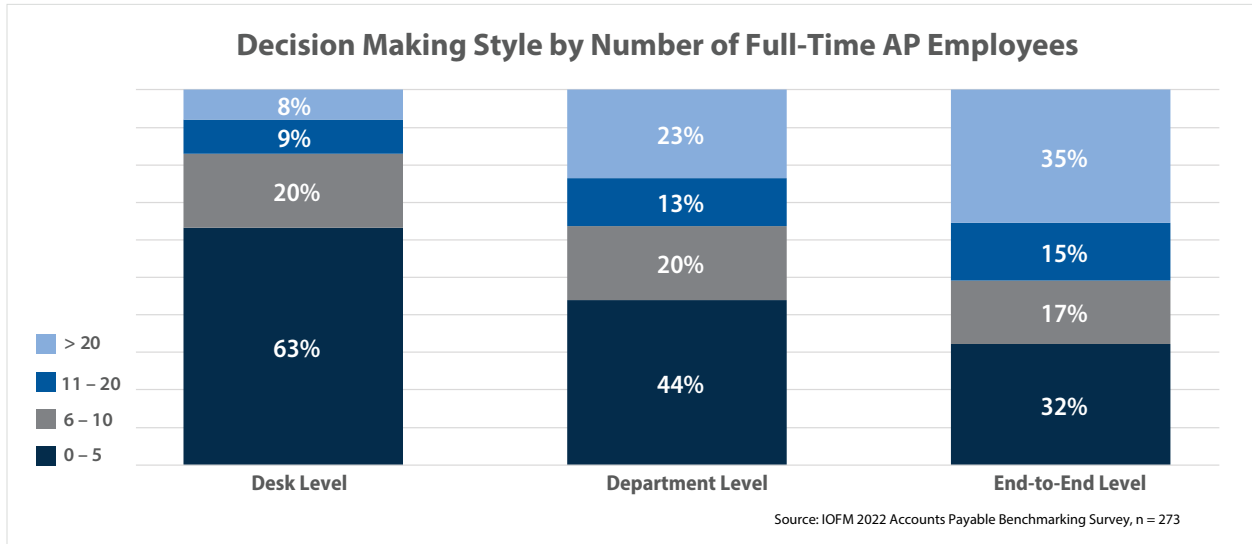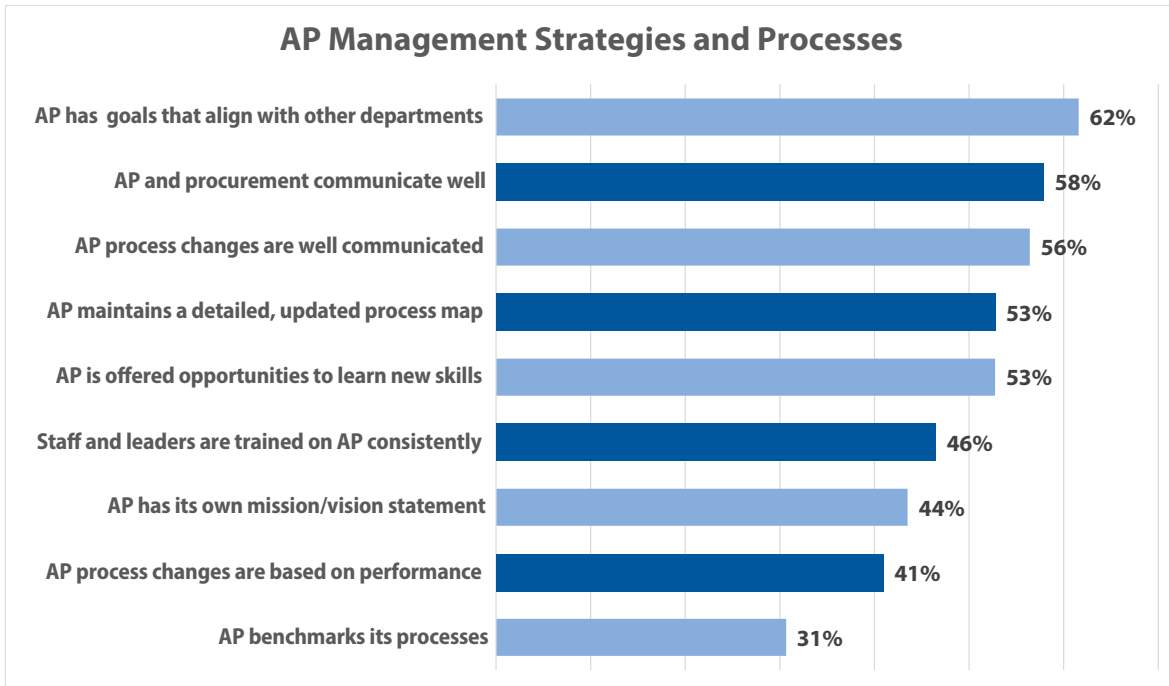**FIGURE 6.** DECISION MAKING METHODOLOGY BY AP DEPARTMENT SIZE

Decision Making Style by Number of Full-Time AP Employees

Legend:
- > 20
- 11 – 20
- 6 – 10
- 0 – 5

Desk Level: 8%, 9%, 20%, 63%

Department Level: 23%, 13%, 20%, 44%

End-to-End Level: 35%, 15%, 17%, 32%

Source: IOFM 2022 Accounts Payable Benchmarking Survey, n = 273

FIGURE 7. STRATEGIES EMPLOYED WITHIN AP TO MAXIMIZE PERFORMANCE

AP Management Strategies and Processes

Strategy	Percent
AP has goals that align with other departments	62%
AP and procurement communicate well	58%
AP process changes are well communicated	56%
AP maintains a detailed, updated process map	53%
AP is offered opportunities to learn new skills	53%
Staff and leaders are trained on AP consistently	46%
AP has its own mission/vision statement	44%
AP process changes are based on performance	41%
AP benchmarks its processes	31%

AP processes should be carefully crafted and monitored to ensure optimal performance. Survey participants were asked what strategies their organizations use to ensure accounts payable is organized, well-trained, motivated, and clear on their purpose and methods. See Figure 7.
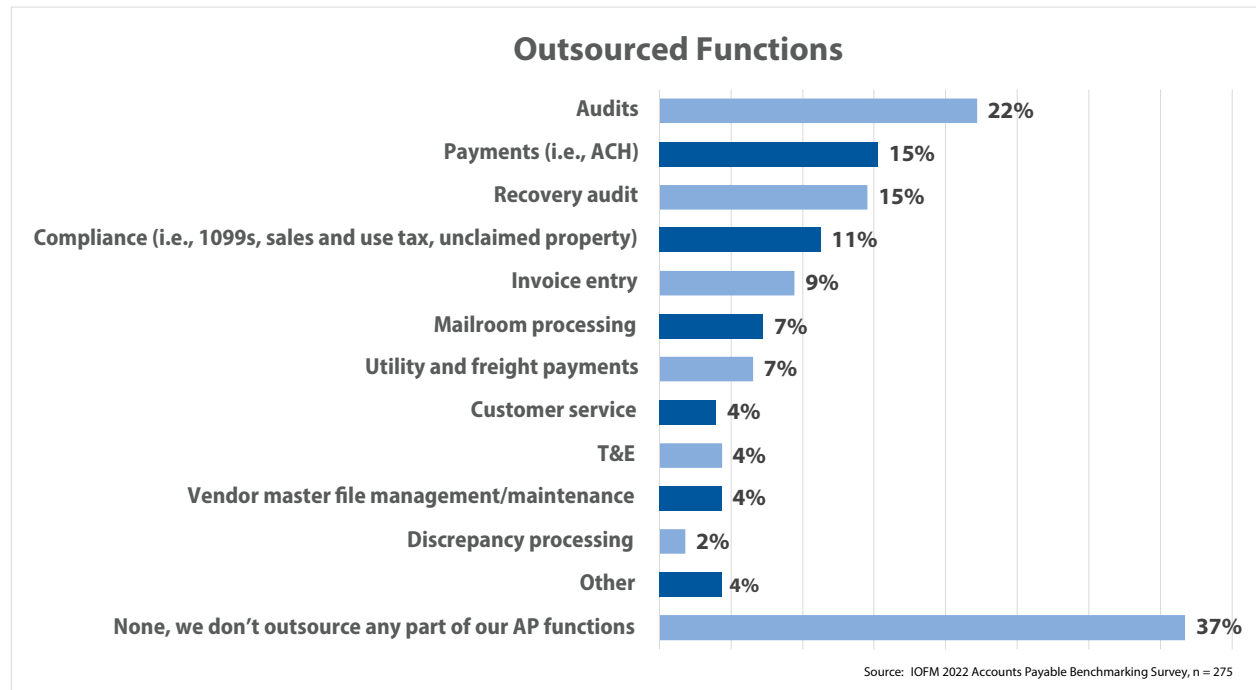
About six out of 10 participants said that their AP goals align with those of other departments, and that they communicate well with procurement. These relationships are fundamental to running an effective and streamlined operation that doesn't get bogged down by miscommunication throughout the procure-to-pay process.

More than half of respondents felt that management does a good job of communicating changes that will affect accounts payable; around half reported they are consistently and regularly trained, not only on their own responsibilities, but are also given opportunities to learn new skills.

Ironically, benchmarking was a process adopted by less than a third of survey participants. We will further explore the motivation behind that in a future report.

Outsourcing

FIGURE 8. OUTSOURCED AP FUNCTIONS

Outsourced Functions

Function	%
Audits	22%
Payments (i.e., ACH)	15%
Recovery audit	15%
Compliance (i.e., 1099s, sales and use tax, unclaimed property)	11%
Invoice entry	9%
Mailroom processing	7%
Utility and freight payments	7%
Customer service	4%
T&E	4%
Vendor master file management/maintenance	4%
Discrepancy processing	2%
Other	4%
None, we don't outsource any part of our AP functions	37%

Source: IOFM 2022 Accounts Payable Benchmarking Survey, n = 275

Accounts payable organizations do outsource some functions to third-party vendors. Note that the data in Figure 8 refers to tasks that are not performed by the respondents' automation process, but rather by a wholly separate entity.

It is not surprising that audits are at the top of the list, given that this is a detailed process conducted more objectively by a dedicated external party. Recovery and compliance audits are also natural tasks for an outside party to manage.

Payments are outsourced by 15 percent of participants, and it is likely that a good portion of this function is handled by their banks or other financial institutions.

Over a third of respondents don't outsource any part of their process, preferring to handle everything in-house.

The Takeaways

Automation is clearly on the rise. The challenges of the pandemic and working from home likely spurred organizations which had resisted automating to go forward with it in order to get work done from various remote locations.

With the number of automated solutions currently available, even small organizations are able to find a fit for their operations. This is evidenced by the consistent level of automation for the standard accounts payable processes, regardless of the size of the AP department.

For organizations that haven't yet automated, it's worth considering that your peers are increasingly embracing it, and for good reason. Automation streamlines your processes; should save you money in operating costs; reduces the strain on your staff; affords greater compliance; offers better insight into your processes and payments; and should enable you to pay faster, thereby capturing additional discounts.

In the next report, we'll dig into how organizations are performing based on their volume and number of employees. This is where you'll be able to align yourself with comparable organizations so you can analyze where your biggest opportunities for improvement lie.

12

About the Institute of Finance & Management

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

Our enduring commitment to serving the accounting and finance professions is unmatched. IOFM has certified over 25,000 accounting and finance professionals and serves several thousand conference and webinar attendees each year.

IOFM is proud to be recognized as the leading organization in providing training, education and certification programs specifically for professionals in accounts payable, procure-to-pay, accounts receivable and order-to-cash, as well as key tax and compliance resources for global and shared services professionals, controllers, and their finance and administration (F&A) teams.

Learn more at **IOFM.com**

IOFM Institute of Finance & Management

Produced by **diversified** COMMUNICATIONS