What cannot be measured, cannot be met.

Consider this white paper the field guide to optimizing your accounts payable operation. If your decisions impact the accounts payable process, you can expect to takeaway valuable insight from this white paper, such as...

1 **THE TOP 5 KPIs YOU NEED TO EVALUATE YOUR AP PROCESS PERFORMANCE**

2 **HOW TO MEASURE AND MONITOR THESE KPIs ON A REGULAR BASIS**

3 **WHY YOU NEED TO USE RELEVANT BENCHMARKS TO COMPARE YOUR PERFORMANCE WITH YOUR PEERS**

4 **HOW TO GET STARTED IMPROVING UNDERPERFORMING KPIs**

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Why is it important to measure?

While a modern finance executive is most likely already aware of the term KPIs, for a quick overview, a KPI should be a quantifiable data point, closely tied to the success of a specific business project. Good KPIs should be specific, agreed upon by all project members, and time-bound.

With the increasing insight provided by business technology, there are a myriad of measurements for finance executives to consider, especially when it comes to accounts payables. "Number of invoices processed," "days payable outstanding," "number of invoices paid in time"; the list of AP KPIs seemingly has no end. But which of these numbers are important and why should you be measuring them? Just because something can be measured, doesn't mean that it's a key part of the process you're measuring, or even relevant

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to the success overall. Looking back at the opening heading of this white paper, "What cannot be measured, cannot be met" is referring to your specific business goals and the metrics that will highlight where you stand in the process of achieving that goal, and how you improve, or diminish, over time.

For the purpose of this white paper, we'll be looking at the top 5 KPIs that an accounts payable department should consider when striving to reach best-in-class efficiency.

What should you be measuring?
Top 5 KPIs.

1 ### Cost per invoice

The cost per invoice is most often defined as the total average cost of processing one invoice through the organization, but can vary among businesses depending on the factors you include in this calculation. Often, a company's cost per invoice may appear deceptively low, simply because they haven't considered the hidden costs that are actually hurting their profit margins.

For example, a company with a highly manual or paper-based invoice process needs to take in account the labor and operational costs of employees spent in time-consuming, lengthy processes, and the increased risk of human error presented by manual invoice processing. In addition, the cost per invoice would also need to include the cost of time spent in the accounts payable process by business users.

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Just the additional consideration of human labor costs can radically increase a company's overall processing cost per invoice. In addition to accounting for staff costs, there are several other major contributors to cost per invoice:

- **SYSTEMS AND EQUIPMENT**

- **MAILING/PRINTING**

- **OVERPAYMENT / ERRORS / LATE PAYMENTS**

- **LOST SUPPLIER DISCOUNTS**

- **AUDIT COSTS**

According to a research report published by the Association for Image and Information Management (AIIM), the average cost to process an invoice is $12.90 per invoice. This amount may seem staggering at first, but given the hidden costs mentioned above, may be the unrealized reality of businesses that have not fully automated their purchase-to-pay system. Perhaps even more telling of the cost of manual processes, is that the same report also stated that the cost for an invoice without a purchase order was 2.2 times that of PO-based invoices.

While the research report numbers from analysts that we'll be sharing in this white paper are important, there are some considerations to keep in mind when using them as a benchmark for your specific business (which we'll go over later on in the white paper).

2 Invoice lead time

This KPI tracks the total time it takes for an invoice to be received, processed, finalized, and made ready for payment in the financial system. Those steps most often include the time it takes to:

1. DIGITIZE THE INVOICE OR CONFORM TO A STANDARDIZED DATA FORMAT

2. IF APPLICABLE, MATCH THE INVOICE TO SUPPORTING DOCUMENTS SUCH AS A PURCHASE ORDER, A GOODS RECEIPT NOTE OR A CONTRACT.

3. APPROVE AND/OR ANALYZE ANY DEVIATIONS

4. COMPLETE A FINAL REVIEW AND POST TO THE ERP

There are several factors that may be impacting a business' total invoice lead time, which may vary depending on the company size and industry. One such underlying measurement is the percentage of electronic invoices vs. paper invoices, and what percentage of invoices are being directly digitized into the workflow. Paper invoices and clunky, fragmented invoice digitization lead to increased risk of human error and lost or misplaced invoices. This only exacerbates an already poor lead time by drawing out the approval cycles and deviation management.

Research reports from both Ardent[1] and PayStream Advisors[2], respectively, put the average invoice lead time between 12.2 to 23 days per invoice, a number that should be much lower given the readily available market of automation resources to select from. These same research reports put the best-in-class in invoice processing times between 3.9 and 5 days, nearly 74% faster than their average performing peers. In the case of MediusFlow users, the benchmarks are even faster; the average Mediusflow user's invoice lead time is 7 days, while our best-in-class client boasts an impressive <1 day lead time.

The root cause of a lengthy and complex invoice process may fall on the suppliers you are receiving invoices from. This leads us to

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[1] Ardent Partners, ePayables 2016: Eyes on the Prize (2016)
[2] PayStream Advisors, Your Guide to Accounts Payable Automation Technology (2016)

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another underlying metric feeding into invoice lead time: the percentage of your invoices that require scanning and/or other manual intervention to be processed, presented by supplier. Even if you have implemented e-invoicing, suppliers must be held to a company's invoice data requirements (stating PO-number, contact person, project number, etc) and failure to do so can be just as disruptive to your AP process as paper invoices. Most often, companies can apply the 80/20 rule to

breakdown the cause of an unsatisfactory lead time. That is, 80% of the problematic invoices bringing about delays in digitization and automation are being caused by 20% of a company's suppliers. By strategically selecting the problem suppliers to be set up for e-invoicing and educated on invoice data format requirements, you may be able to significantly reduce your invoice lead time and the workload on your AP staff without a wide supplier base roll-out of portal onboarding.

3 Number of invoices per accounts payable full time employee (FTE)

A significant indicator of efficiency and productivity, the number of invoices processed per accounts payable full time employee might not be the first KPI you think of as an important measurement, but should not be ignored. Depending on the cadence with which you measure the volume of invoices – daily, weekly, monthly or annually – this number may fluctuate between businesses, making benchmarking slightly more complicated. The simplest way to go about analyzing is to take your annual invoice volume and divide it by the number of full time employees in your accounts payable department.

A company's invoices per AP FTE will vary based on several different factors. One influential factor is the percentage of invoices still arriving in paper form or invoices that require any manual processing to be entered into the accounts payable workflow. Companies that receive the majority of their invoices in electronic format will be much more efficient at handling higher invoice volumes. Other influential factors include the level of automation implemented in the AP departments, as well as the size and industry of the organization.

Once a company knows the volume of invoices handled by their AP staff, the next step is to see how you rank with peers. Canon Business Process Services report[3] from 2016 gave 16,020 as the average number of invoices processed per AP FTE per year, whereas best-in-class organizations annually processed 42,708 invoices per AP FTE. While these are figures calculated from survey data, there is still room for improvement among the "best in class," as the top performing MediusFlow user far surpassed the Canon statistic with 168,889 invoices processed per AP FTE annually.

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[3] Canon Business Process Services, High Performance Accounts Payable: Three Key Drivers to Success (2016)

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4 Automatic distribution percent

Like we discussed in the cost per invoice section of this white paper, it is crucial to limit the amount of time spent by business staff in the AP process. Not only does a mostly manual workflow cost the business money to have approvers wrapped up in a less-than-streamlined approval and deviation management process, but the process of getting the invoice in front of the correct approver can take AP staff away from their own important tasks and often results in lost or misplaced invoices.

The solution to the problem is the automatic routing of invoices to the correct approver in the most streamlined way possible through an AP invoice automation tool. The most sophisticated tools should not only route the invoice, but also apply accurate coding to the invoice and account for distribution across multiple locations or departments according to your organization's specific logic and approval hierarchy. And if the approver does not act on an invoice within a set period of time, the system can either prompt the approver again or redirect the invoice to another person in the organization to encourage action to be taken on the outstanding approval.

5 Touchless processing ratio

Defined as the percentage of invoices that are processed with no human intervention between receipt and the point where it is ready to be posted in the financial system and acts as a key efficiency driver. Ardent partners report, "ePayables 2016: Eyes on the Prize," found that businesses with some level of automation implemented in their AP operations achieve a touchless processing rate of 24.5%, whereas best-in-class organizations had a touchless processing rate of 57.1%. By comparison, MediusFlow user benchmarks fall slightly higher than the research report's numbers, at 69% for user average and 90% for best-in-class.

It is important to note that the term "touchless" or "straight-through" processing can be used quite loosely when describing an invoice's journey from receipt to payment. However, as a KPI for a successful AP department, touchless rate should only be defined and measured as true touchless processing, that is, zero human intervention at any point in the invoice process. Having a strong, true touchless processing rate for invoices influences most of the KPIs mentioned in this white paper. By removing manual steps, an increased touchless processing rate reduces the AP team's costs and shortens the lead time for an invoice to be processed. It also creates greater visibility into invoice data, as having an automation system in place captures detailed records from relevant databases for documents such as purchase orders and goods receipts, in addition to capturing data regarding exception management and staff level accountability for delays or errors.

For some companies, the most profitable outcome of increasing their touchless processing rate is the ability to capture cash discounts from suppliers by paying invoices well within the early payment discounting terms. For some, the real profits gained from these now attainable discounts is enough to cover the cost of implementing an automation solution in the first place.

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Fitting your measurements into the bigger picture: benchmarks

Highlighting your accounts payable KPIs, measuring them, and regularly reporting on them are only the beginning steps in staying agile and reactionary to the results of your reporting. Organizations that perform peer analysis for their key performance indicators have actionable insight into how successful their AP team is, as well as how much room there is to be even more successful.

"Inaccurate benchmarking may be just as dangerous as not benchmarking at all, as it can lead to the complacency and inaction that comes with a false sense of security."

The type of benchmarks you use are just as crucial as the KPIs you're measuring. Inaccurate benchmarking may be just as dangerous as not benchmarking at all, as it can lead to the complacency and inaction that comes with a false sense of security. Make sure you understand the origin of the benchmark numbers – it can range from interviews and surveys to pretty vague estimates based on experience. Watch out or you can end up comparing yourself with something that does not make any sense for your business.

At Medius, we are a true cloud company and we enjoy the benefit of running hundreds of customers through the exact same, standardized AP process, generating big data and enabling us to measure and compare process performance and provide extremely relevant benchmarks and business insights to our customers. This means that our benchmarks are neither subjective responses to interviews nor estimates, but data driven by and based on objective observation.

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First steps for driving efficiency

Keeping these KPIs in mind is just the beginning. How does one go about actually analyzing them and setting up steps to improve underperforming areas?

First of all, you need a tool that is up for the task. There are plenty of tools in the market, but few are powerful enough to offer high levels of automation in a ready-to-run standard cloud service. Furthermore, choose a tool that's right for your team. Consider the usability of the tool and whether it requires extensive employee training. If a fast deployment is your focus, look for a system that has a high level of usability, off the shelf.

You need to focus on automation and not just creating a digital copy of your manual workflow. The key here is to strategically refocus employees away from tasks that can be taken care of without human intervention.

Data-driven benchmarks are a huge asset for you to leverage in your continuous improvement agenda. Designate ownership of the AP process. Whoever owns the process is responsible for continuously analyzing and improving weak areas and bottlenecks. This may seem daunting for one party to be responsible for, but it can be done with minimal effort if you deploy the right technology.

You also have to talk to your procurement department and suppliers to make sure that you are aligned on data quality to maximize automation. In many cases, accounts payables can benefit greatly by concerting their improvement activities with procurement to ensure that these parameters can be monitored and included into standard supplier management activities alongside the supplier quality audits and communications that are already in place.

Need help getting started?

MediusFlow is a cloud-based, next generation AP invoice automation solution enabling 90+% of the invoice volume to run through a fully touchless process. The solution is intuitive and both easy to use and implement; yet flexible and scalable to meet the demands of global organizations.

MediusFlow currently support 2,000 customers around the globe processing a total of 52 million invoices annually. The customer base includes brands such as Marc Jacobs, Toyota, Cineplex Entertainment, Stadium, Fenix Outdoor, Elekta and Intersport. Learn more and get in touch on **mediusflow.com**.

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