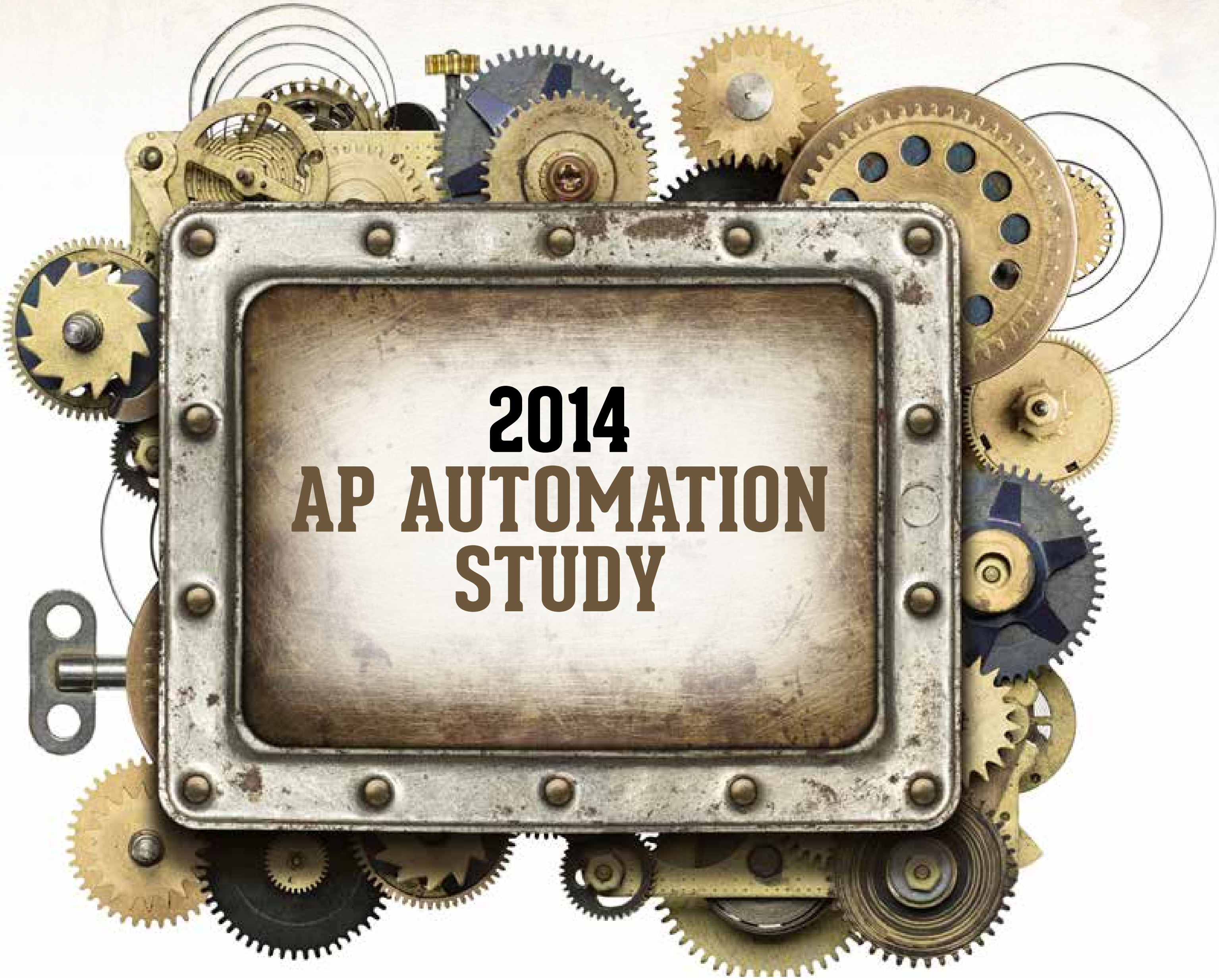

2014 AP AUTOMATION STUDY

Sponsored in part by:

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The Institute of Financial Operations

The Institute of Financial Operations is a membership-based professional association serving the entire financial operations ecosystem, with a particular focus on the accounts payable and accounts receivable disciplines and the related fields of information management and data capture.

The Institute grew out of the merger of four associations: International Accounts Payable Professionals (IAPP), International Accounts Receivable Professionals (IARP), the National Association of Purchasing and Payables (NAPP), and The Association for Work Process Improvement (TAWPI).

Based in Orlando, Fla., with affiliates in the U.S., Canada, and the UK, The Institute serves as a global voice, chief advocate, recognized authority, acknowledged leader, and principal educator for people in financial operations. The Institute has a community of nearly 70,000, which includes 9,000 members and customers, and an additional 61,000 financial operations professionals.

The Institute's members have access to benefits and leading-edge resources such as the award-winning Financial Ops magazine, a dynamic content-rich website, educational and networking events, online educational offerings, certification and certificate programs, career resources, and volunteer opportunities.

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TABLE OF CONTENTS

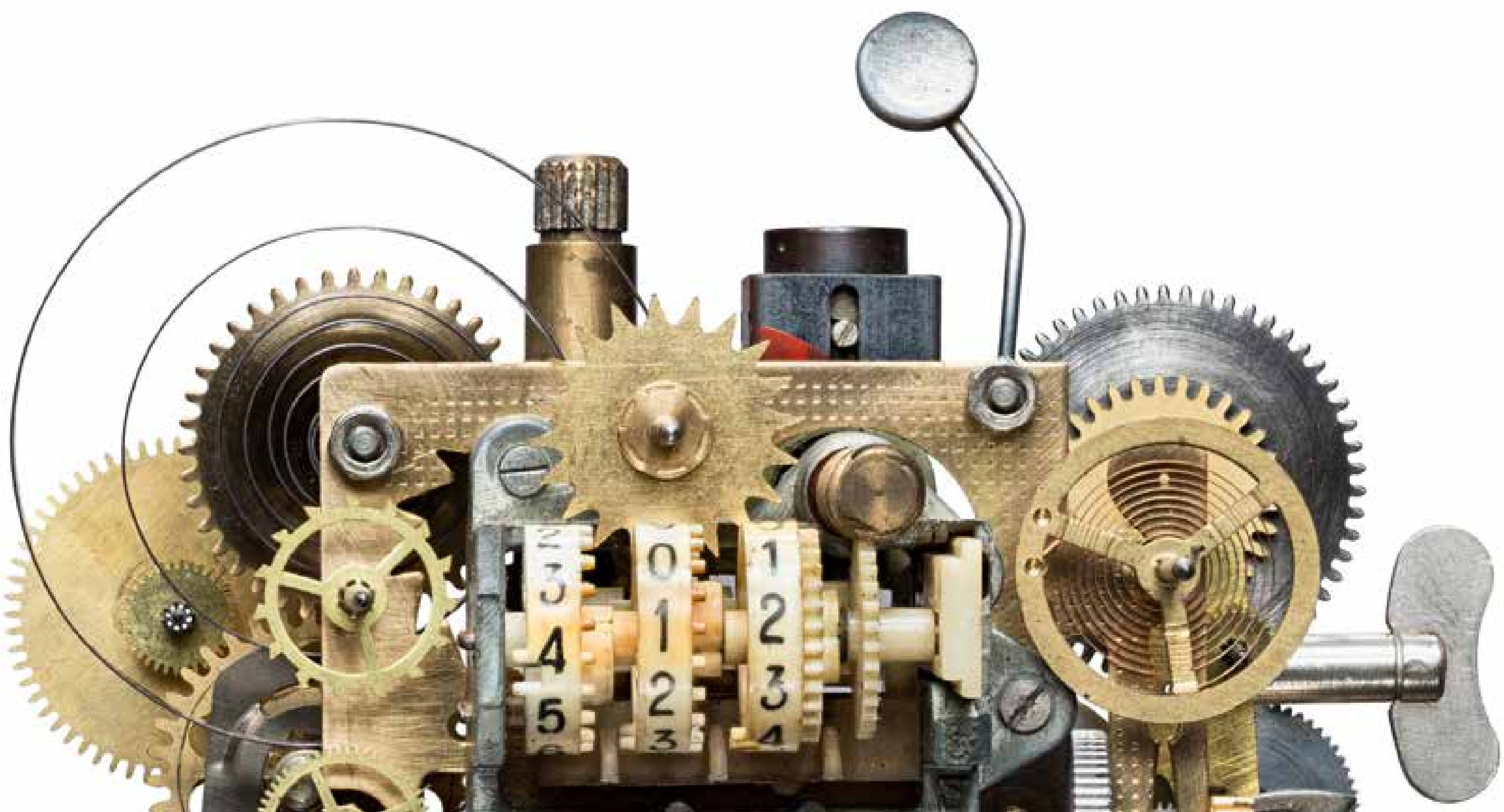
INTRODUCTION 6

EXECUTIVE SUMMARY 7

KEY FINDINGS 8

SURVEY RESULTS 9
About the respondents 9
Processing invoices 11
Processing B2B payments 16
Technology use and satisfaction 18
Supplier portals 19
Cloud or SaaS services 21
Technology spending 23

CONCLUSION 24



INTRODUCTION

The accounts payable profession is becoming more aware of automation options and what they can mean for cash management, according to results of this annual study by The Institute of Financial Operations. Although respondents to the survey conducted in mid-2014 show AP departments are still heavily reliant on paper, they are watching a steady stream of developments in existing and emerging technologies.

Respondents ranged from finance executives to shared services directors to AP managers and other titles. Only about 9 percent reported that their operations are highly automated, receiving less than 10 percent of their invoices on paper. On the flip side, about 29 percent said paper accounts for more than 90 percent of their invoices.

That means most companies whose representatives responded to the survey remain in the awkward middle — not yet fully automated, but rather navigating the sometimes turbulent waters of change.

This year’s survey of industry professionals delved deeper to get answers to key questions such as:

- How automated are AP departments?
- Which technologies are seeing the highest adoption rates?
- What are the costs to process paper versus electronic invoices?

The survey also looked ahead, querying participants about their companies’ top technology priorities for the coming year as well as the obstacles they anticipate facing.

EXECUTIVE SUMMARY

With an improving economy, survey respondents are experiencing an increase in invoice volume. In fact, 39 percent said their total invoices increased as much as 10 percent in the past year, and another 24 percent reported an increase of greater than 10 percent. Only 4 percent reported a decrease, with 2 percent citing a significant decline of more than 10 percent.

Perhaps, what's most frustrating for AP professionals who have not automated their processes is observing the gains made by those who have. A greater percentage of companies report lower average costs using electronic invoices as opposed to paper ones. Indeed, 43 percent of respondents said their average e-invoice cost was less than $2.

By comparison, only 18 percent of those who rely on paper-based invoice processing could report that their cost was as inexpensive. Meanwhile, 38 percent said their paper invoice costs range from $2 to $10. That figure was only 14 percent among those using e-invoicing.

Greater adoption of automation also appears to be playing a key role in reducing invoice entry and payment error rates. The percentage of respondents reporting a decline in error rates during the past 18 months increased to 40 percent versus 30.9 percent a year ago. Almost one-third of respondents this year said error rates decreased slightly, or up to 10 percent, while another 10 percent said they dropped significantly, in excess of 10 percent.

The survey looked at why so many companies are struggling with implementing automated processes. More often than not, everyday challenges are the biggest obstacles: too many other projects, lack of internal IT resources, and insufficient attention or sponsorship from senior-level management.

Nevertheless, survey respondents said they're forging ahead to pursue technology initiatives. Their top priorities include improving data capture by using technology such as optical character recognition (OCR). Improving document imaging and workflow/invoice approval also ranked high on their to-do lists.

The next frontier? Using cloud solutions or software-as-a-service (SaaS) for AP processing. Although 46 percent of respondents said they are not considering either at this time, such options undoubtedly are attracting greater attention. The potential benefits — including minimal IT involvement, no capital investment, and no software or hardware — will be difficult to ignore, although security issues remain an offsetting concern, along with challenges integrating with ERP solutions and lack of control over changes to software.

OTHER KEY FINDINGS

- Although the push for a paperless AP process has intensified, 70 percent of respondents said at least 50 percent of their invoices are still paper. Only 9 percent said paper invoices account for less than 10 percent of their total.

- About 43 percent said their average e-invoice cost was less than $2. By comparison, only 19 percent could report a comparable cost processing paper invoices.

- The percentage of respondents reporting a decline in invoice entry and payment error rates increased to 40 percent compared with 30.9 percent a year ago.

- While 72 percent of respondents said it takes them five days or fewer for data entry, validation, and approval of an invoice, 10 percent reported completing the process in less than a day — and 9 percent said they do it in less than an hour.

- Checks remain the most common B2B payment method, accounting for 50 percent of payments, according to the survey — about the same as the previous year.

- The percentage of respondents reporting that they use supply chain financing increased to 13.7 percent from 8 percent a year ago.

- The percentage of respondents who said they don't use any capture technologies remained unchanged at 25.6 percent. One type of technology that appears to be gaining momentum: front-end extraction of document data. The percentage of respondents using this technology increased to 22 percent from 19.5 percent a year ago.

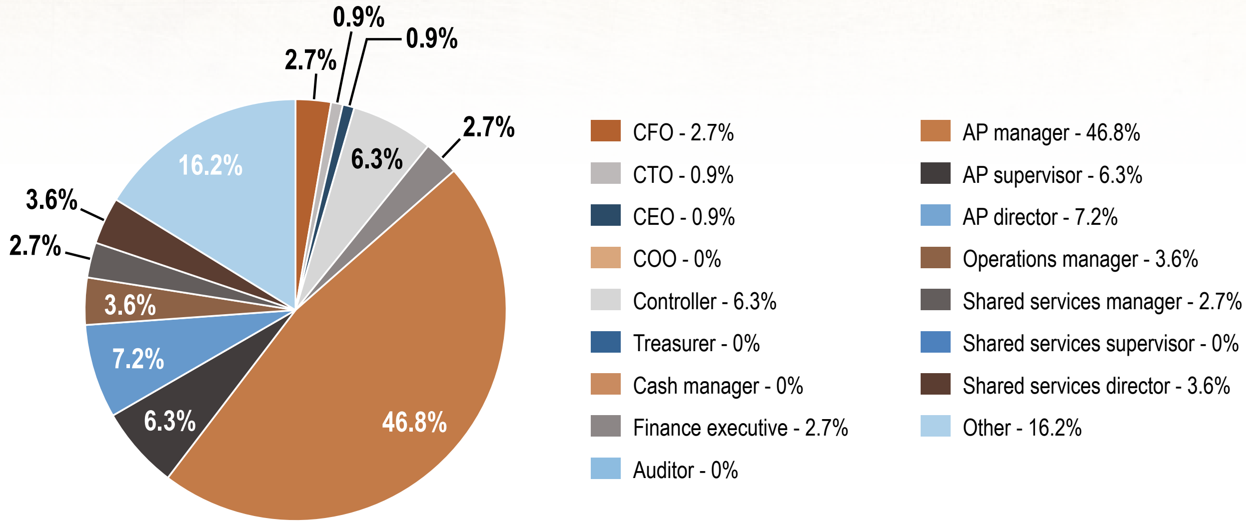
- The percentage of respondents who use optical character recognition (OCR) technology increased to 38 percent from 23 percent a year ago.

- The most compelling reason to implement a supplier portal, according to 36 percent of respondents, is for a self-service Web form invoice submittal.

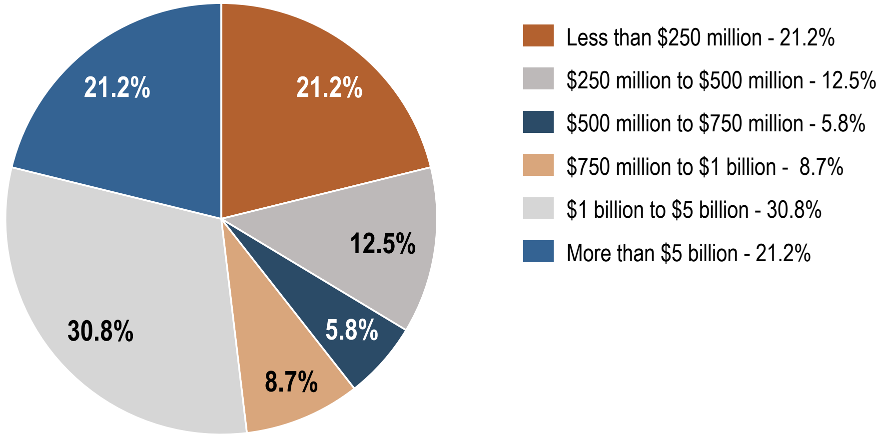
- Companies' interest in cloud solutions or software-as-a-service is growing, and this year's survey responses provided several top reasons for that trend: minimal IT involvement (26 percent), no capital investment (22 percent), no software or hardware (17 percent), and lower cost per invoice (13 percent).

SURVEY RESULTS

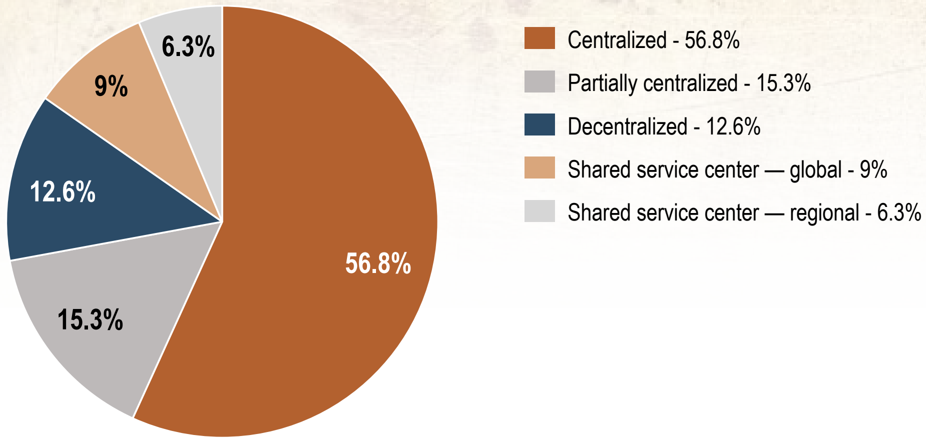
About the respondents



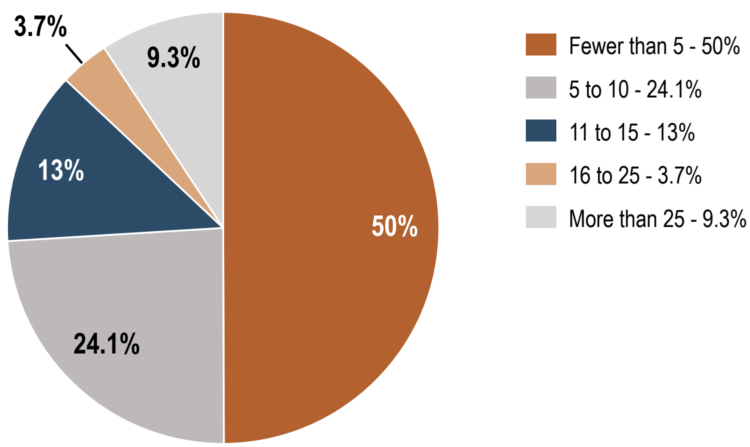
AP managers accounted for 47 percent of this year's survey respondents — the largest representation, just as in the 2013 study. Among the noteworthy changes were the greater presence of senior-level executives: chief financial officers jumped to 2.7 percent from 0.5 percent a year ago; controllers increased to 6.3 percent from 3.8 percent; and finance executives increased to 2.7 percent from 1.9 percent.



The companies represented in this year's survey vary greatly in terms of annual revenues, spanning from less than $250 million to more than $5 billion. Those reporting $1 billion to $5 billion in annual revenues had the greatest representation with 31 percent. Companies with more than $5 billion in annual revenues and those with less than $250 million in annual revenues each represented 21 percent. And companies reporting between $250 million and $500 million in annual revenues accounted for 13 percent. The mix of companies, in terms of annual revenues, closely resembled last year's survey participants.



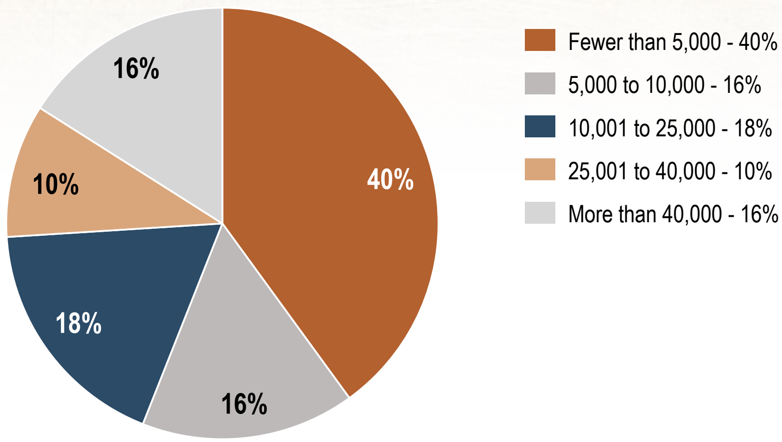
More than 50 percent of respondents described their environment as "centralized." The balance was about evenly split among the following: partially centralized (15 percent), decentralized (13 percent), and shared services center – global (9 percent).



Although 50 percent of respondents said they use fewer than five full-time equivalent employees (FTEs) to handle invoice entry and matching, more than one-quarter illustrated how labor-intensive the task can be. Slightly more than 9 percent of respondents reported that more than 25 FTEs are assigned to such duties. Companies that required 16 to 25 FTEs and 11 to 15 FTEs accounted for 4 percent and 13 percent, respectively.

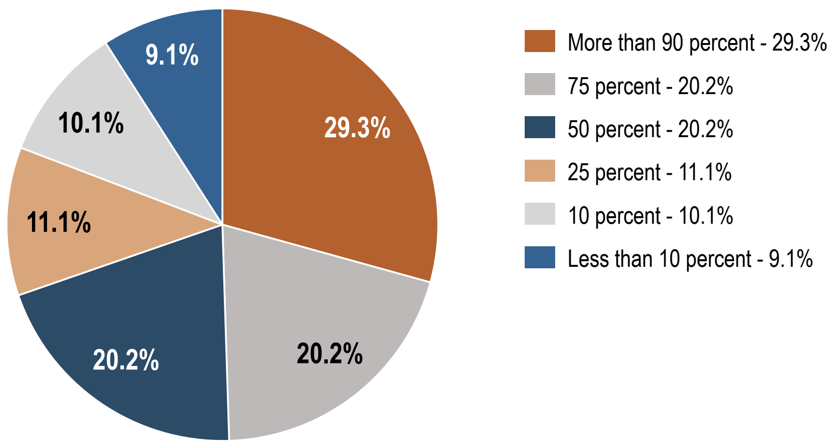
PROCESSING INVOICES

Total invoices (paper and electronic) processed monthly



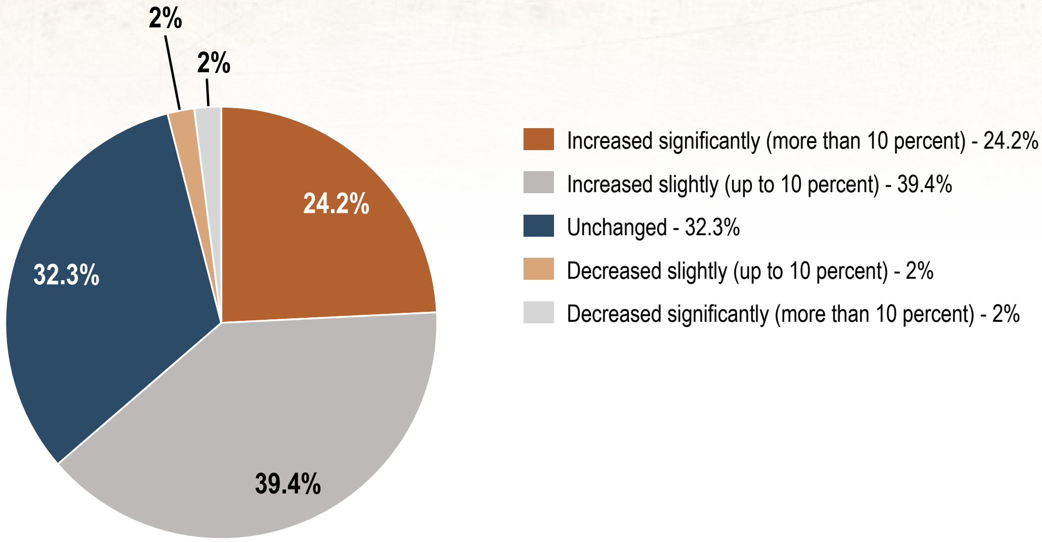
In results similar to those of 2013, 56 percent of respondents reported processing 10,000 total invoices or fewer per month. Companies that process 5,000 to 10,000 invoices accounted for 16 percent, and those with fewer than 5,000 accounted for 40 percent. The percentage of companies that process between 10,000 and 25,000 invoices increased to 18 percent from 14.9 percent a year ago.

Paper as a percentage of total invoices



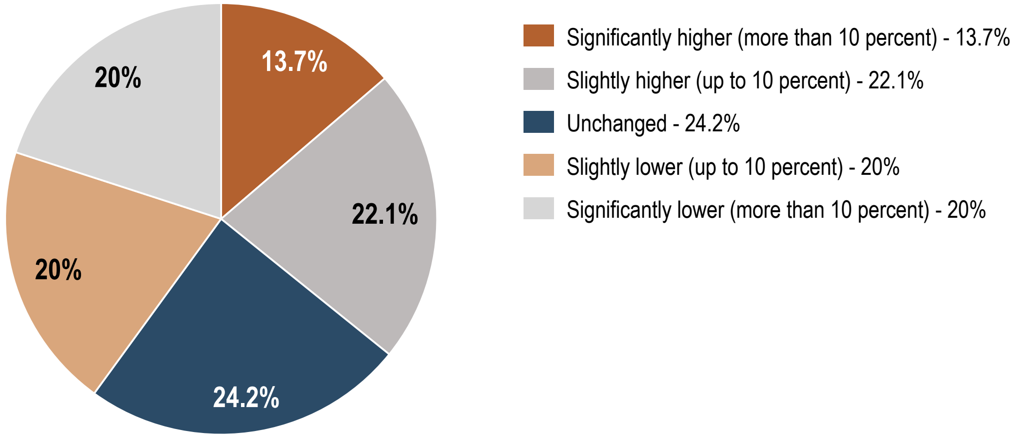
Although the push for a paperless AP process has intensified, 70 percent of respondents said that at least 50 percent of their invoices are on paper. The remainder reported the prevalence of paper this way: 11 percent said at least 25 percent of the invoices they receive are on paper; 10 percent said about 10 percent are paper; and 9 percent said paper invoices account for less than 10 percent of their total.

Change in total invoice volume over the past year



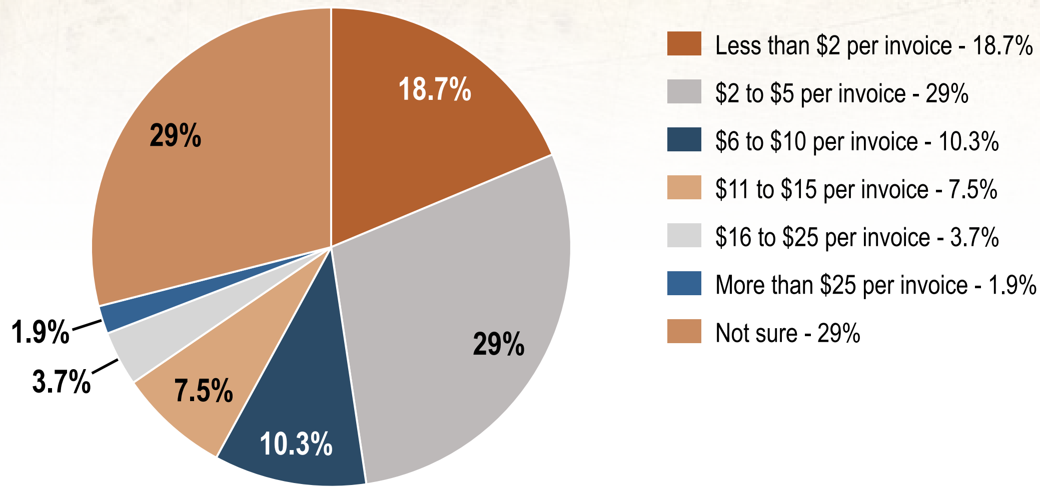
Respondents reported that the volume of invoices they process continues to increase – a factor that could help underscore the need for automation. Over the past year, 39 percent of respondents said total invoices increased as much as 10 percent, and another 24 percent reported an increase of greater than 10 percent. Only 4 percent reported a decrease, with 2 percent citing a significant decline of more than 10 percent.

Change in paper invoice volume over the past year



This year's survey responses indicate that the slow march toward electronic invoicing continues, with 40 percent of respondents reporting they've experienced a decline in paper invoices while 36 percent reported an increase. The balance of the respondents, 24 percent, reported no change in paper invoices over the previous year.

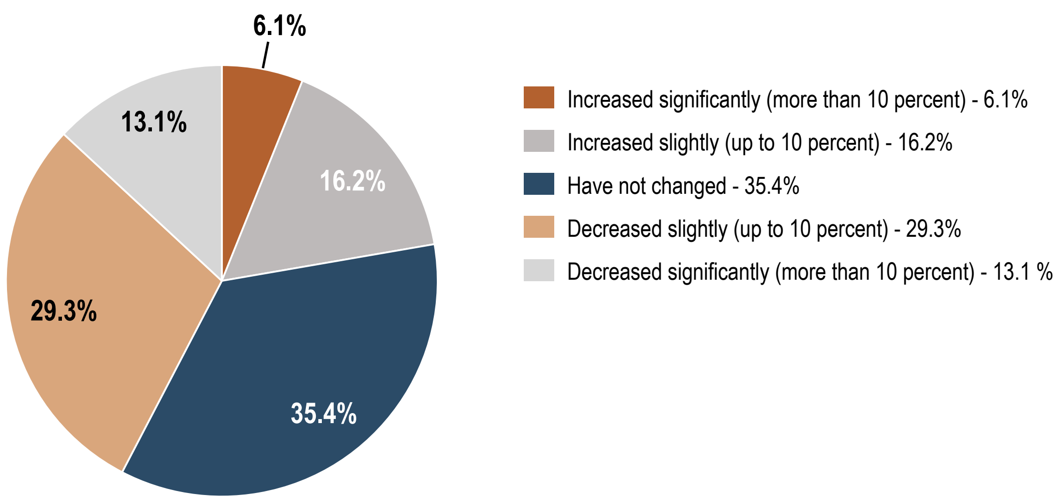
Average cost to process invoices (paper and electronic)



Nearly 48 percent of respondents reported that their average cost of processing is $5 or less per invoice — an improvement compared with 44 percent a year ago. This year, companies that spent from $2 to $5 per invoice accounted for 29 percent of respondents, and another 19 percent reported an average cost of less than $2. On the other end of the spectrum, almost 6 percent of respondents said their average cost to process an invoice exceeded $16.

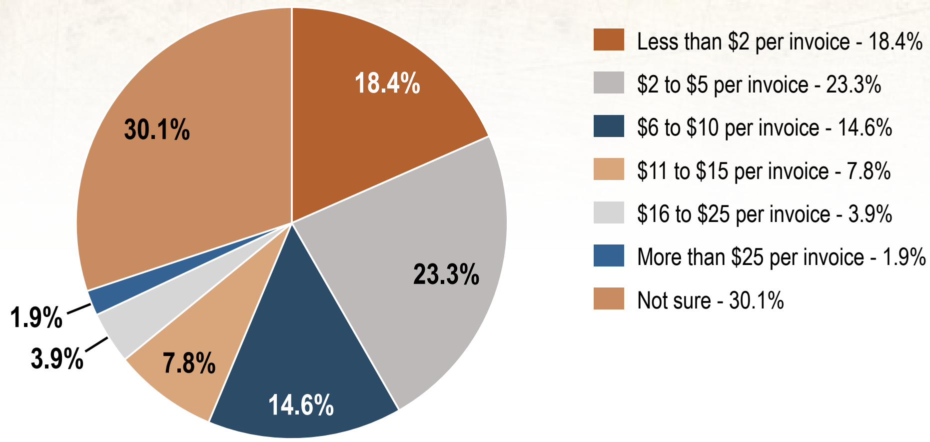
About 29 percent said they don't know the average cost for their companies to process an invoice — but at least that number was down from 2013, when almost 33 percent recorded that same response.

Change in invoice processing cost during the past 18 months



More than 42 percent of respondents reported invoice processing costs declined compared with 40 percent who witnessed an improvement a year ago. Approximately 22 percent said costs increased, which was higher than the 14 percent reporting an increase in the 2013 survey.

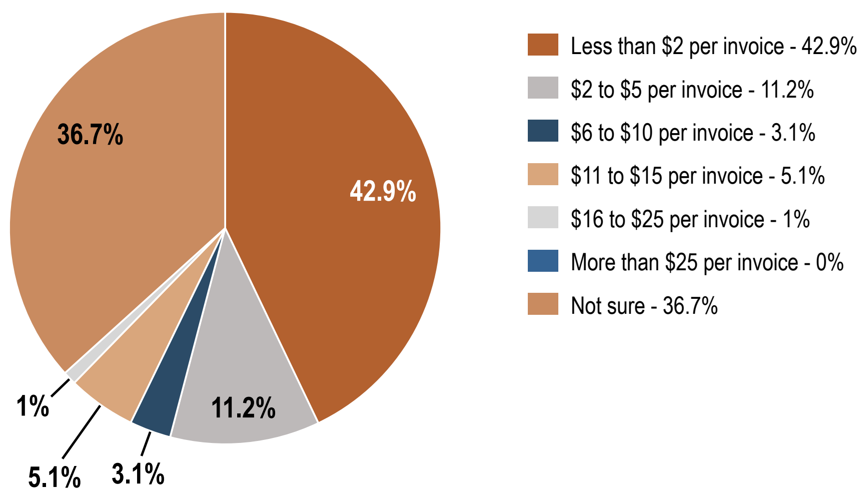
Average cost to process paper invoices (mailed, emailed and faxed)



About a quarter of respondents said it costs an average of $2 to $5 to process a paper invoice. That response was followed by less than $2 (19 percent) and $6 to $10 per invoice (15 percent). Similarly, about half of all respondents in last year's survey reported paper invoicing costs of $10 or less.

About 30 percent said they aren't sure what it costs their companies to process a paper invoice — down from almost 37 percent who responded the same way in 2013.

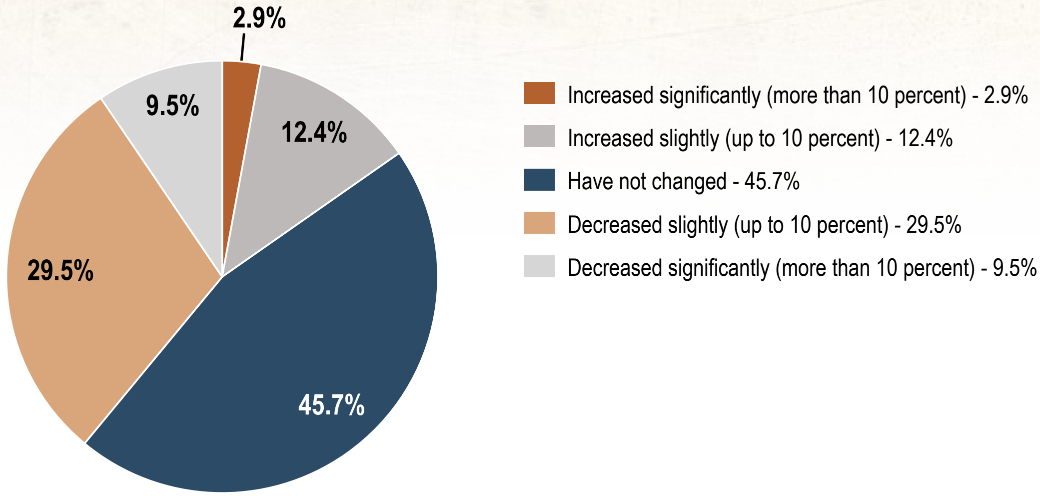
Average cost to process electronic invoices



By most accounts, a greater percentage of companies report lower average costs using e-invoices as opposed to paper ones. Slightly less than half of respondents (43 percent) said their average e-invoice cost was less than $2. By comparison, only 19 percent could report that their paper invoice processing cost was as inexpensive. Meanwhile, 38 percent of respondents said their paper invoice costs ranged from $2 to $10, and only 14 percent reported similar costs with e-invoices.

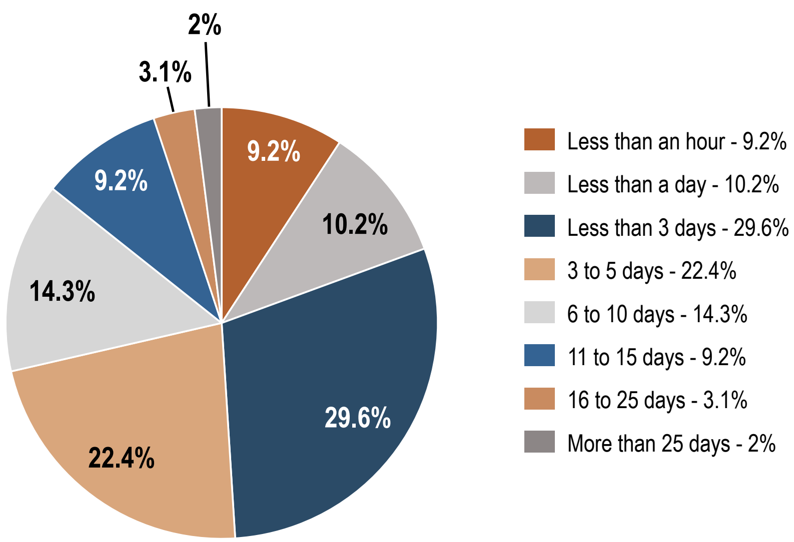
Almost 37 percent of respondents answered that they aren't sure what it costs their companies to process an electronic invoice. That number is down slightly from 2013, when 42 percent had the same response.

Change in invoice entry and payment error rates during the past 18 months



The percentage of respondents reporting a decline in invoice entry and payment error rates increased to 40 percent compared with 30.9 percent a year ago. About 30 percent of respondents this year said error rates decreased slightly (up to 10 percent), while another 10 percent reported improvement of more than 10 percent.

Average time for invoice data entry, validation, and approval

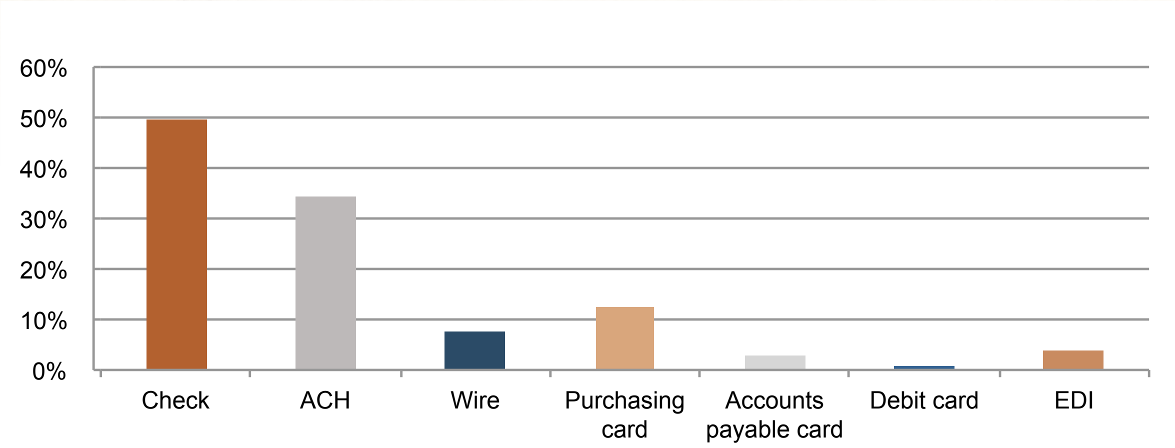


Although more than half of respondents (52 percent) said they require one to five days to process an invoice, 10 percent reported completing the task in less than a day. And 9 percent said they do it in less than an hour.

It should be noted that this is the first year the annual study has included the answers “less than a day” and “less than an hour” — a sign of the increasing use of technology to speed up the process. In 2013, about 33 percent said it took them fewer than three days to complete the process.

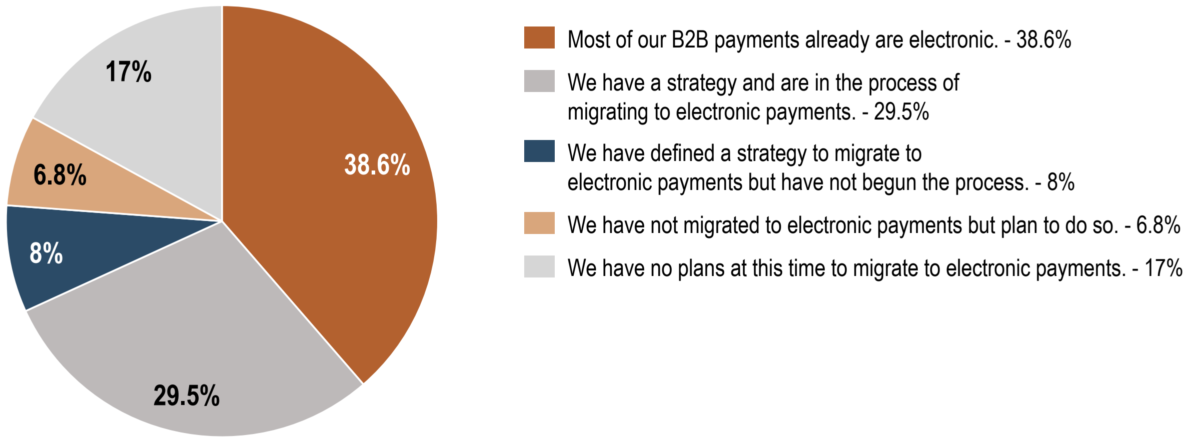
PROCESSING B2B PAYMENTS

Methods and percentage of payments attributable to each



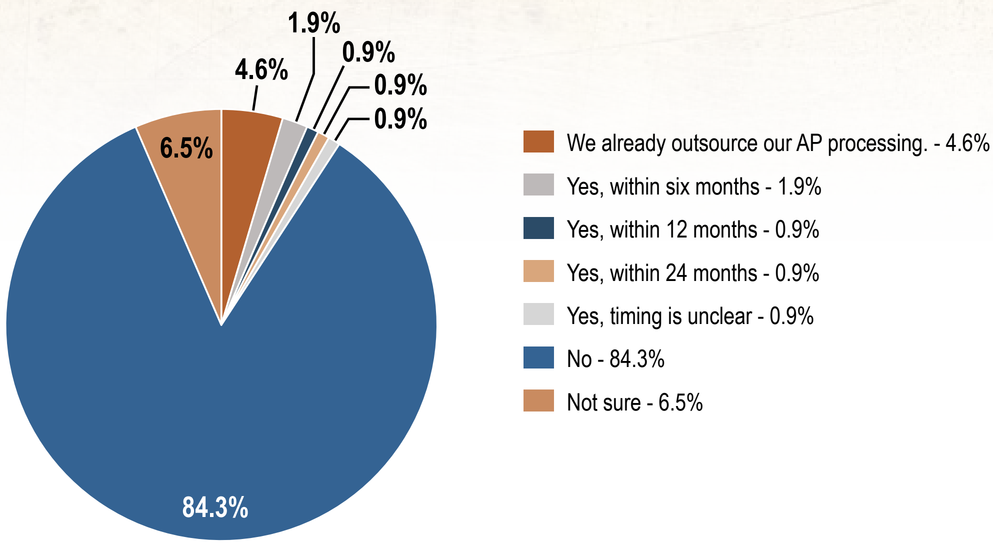
Checks remain the most-used B2B payment method, accounting for 50 percent of the volume. Other methods cited: ACH (34 percent), purchasing card (12 percent), and wire (7 percent). Those numbers varied only slightly from the 2013 study.

Intent to migrate to electronic B2B payments



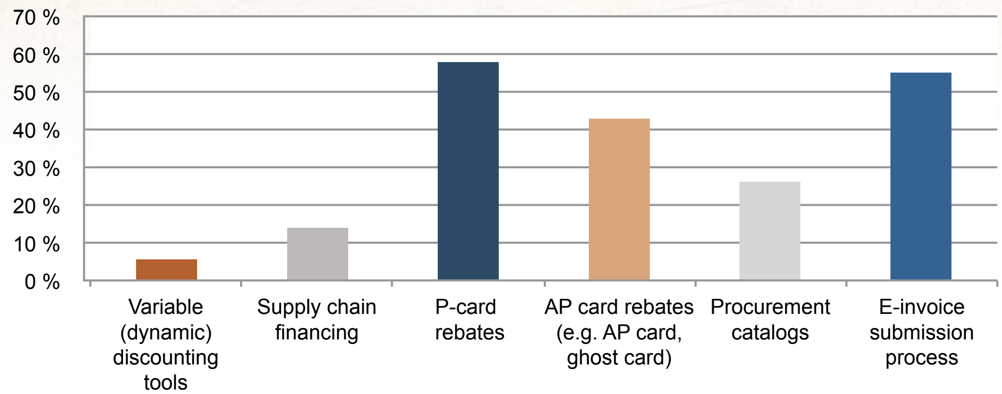
Almost 39 percent of respondents reported that their B2B payments already are electronic, and another 30 percent said they were in the process of migrating to electronic payments. By comparison, about 36 percent of respondents in 2013 said they were already making electronic payments and 32 percent were migrating toward them. The percentage of respondents who have no plans to make the switch increased to 17 percent from 14 percent a year ago.

Outsourcing of AP processing



The overwhelming majority of respondents (84 percent) said they are not considering this option. Some people equate outsourcing with offshoring, as opposed to using expanded lockbox or third-party service bureaus. This question may warrant a deeper dive in future surveys.

TECHNOLOGY USE AND SATISFACTION

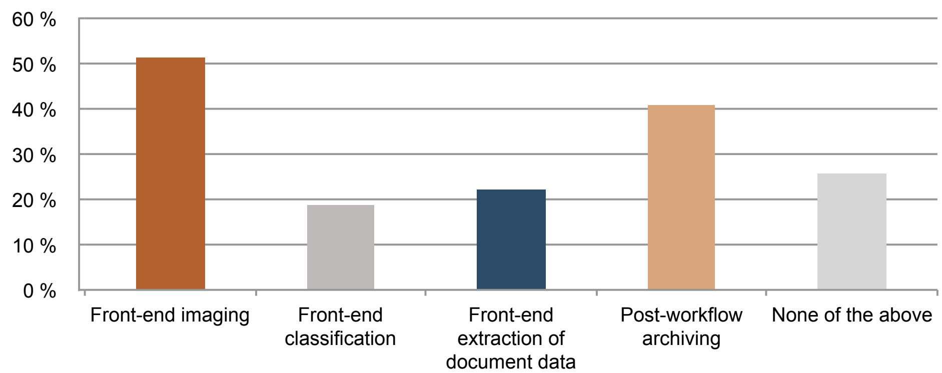


The study looked at where AP departments are using technology the most. The top answers: P-card rebates (58 percent this year, down from 66 percent in 2013), an electronic invoice submission process (55 percent, up from 52 percent), and AP card rebates (43 percent, unchanged from 2013).

About 26 percent use technology for procurement catalogs, down from 34 percent in 2013.

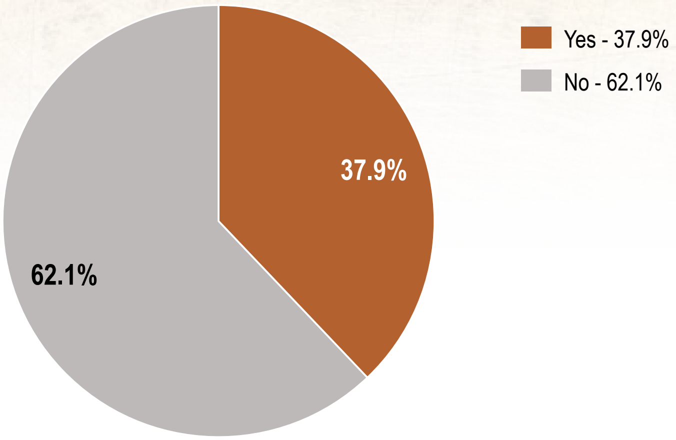
Two uses that are still relatively new and require a higher level of technology commitment remained lower in the rankings this year, just as they did in 2013. Interestingly, their rankings swapped places this year. Almost 14 percent of respondents said they're using supply chain financing, compared with 8 percent a year ago, and only 5.5 percent said they're using some type of dynamic discount tool, a decrease from 13 percent a year ago.

Use of capture technologies



Front-end imaging (51.2 percent) and post-workflow archiving (40.7 percent) remain the most common capture technologies in use among respondents. The percentage of respondents who said they don't use any of the capture technology options listed remained unchanged from a year ago at 25.6 percent. One type of capture technology that appears to be gaining momentum: front-end extraction of document data. The percentage of respondents using this technology increased to 22.1 percent compared with 19.5 percent a year ago.

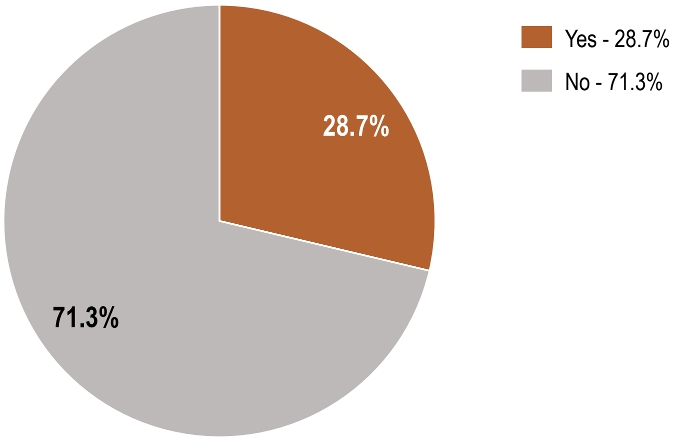
Use of OCR technology to capture invoice data



About 62 percent of respondents said they don't use optical character recognition technology, but their numbers are decreasing. A year ago, nearly 77 percent reported that they had not adopted OCR. Those who embrace it increased to 38 percent this year from 23 percent.

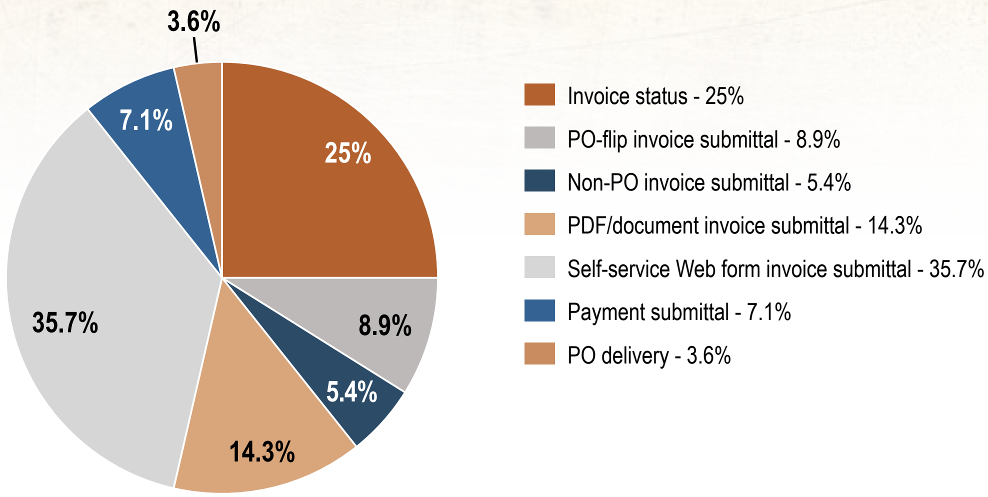
SUPPLIER PORTALS

Use of supplier portals



The use of supplier portals appears to be on par with last year. About 29 percent are using them, compared with 28 percent in the 2013 study.

Reasons to implement supplier portals

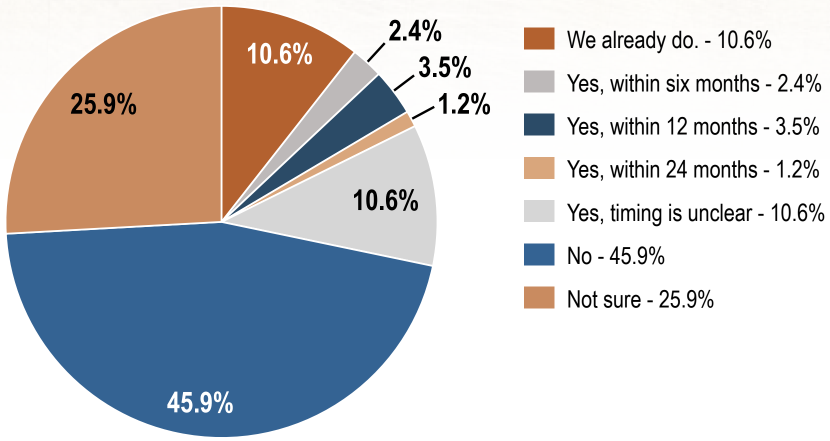


The most compelling reason to implement a supplier portal, according to 35.7 percent of respondents, is to allow self-service for vendors to submit their invoices via the Web. That sentiment represents a significant change from a year ago, when 21.6 percent cited that reason as their top decision driver.

Although the percentage of respondents citing invoice status declined to 25 percent from 37.8 percent last year, it was the second-most-cited reason this year. These top two reasons combined for more than half of the overall responses.

CLOUD OR SaaS SERVICES

Use of cloud services or software-as-a-service for AP processing

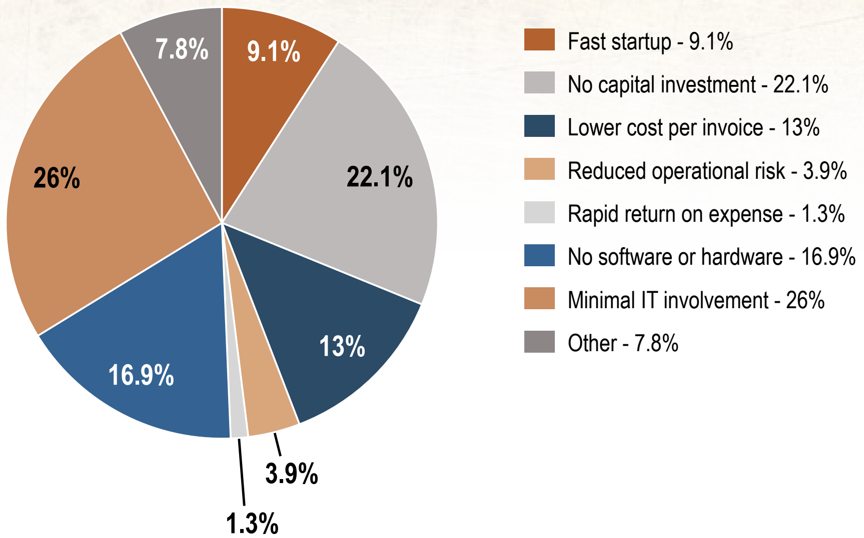


The percentage of respondents who use cloud-based services inched up from 8 percent in 2013 to almost 11 percent in this year's survey. Those with plans to use cloud-based services within six months remained virtually unchanged from a year ago at 2.4 percent, compared with 2 percent a year ago.

The percentage of those who intend to implement cloud-based services within the next two years remained negligible, with 3.5 percent saying they expect it to happen within 12 months (compared with 5 percent in 2013) and 1 percent saying they intend to implement within 24 months (compared with zero last year).

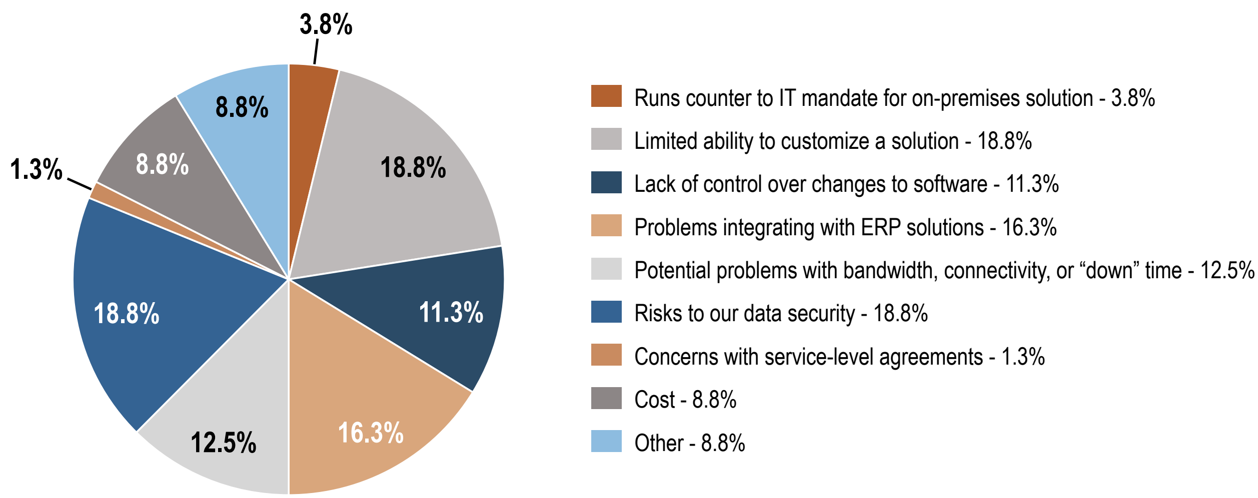
Almost half, or 46 percent, said they are not considering cloud-based service. That percentage remained flat compared with last year, when 48 percent gave the same answer. Last year, 29 percent of respondents said they were not sure, and that figure was 26 percent this year. All of the percentage points that left the uncertain category moved to one of the "yes" answers — in aggregate moving those from 24 percent to 37 percent year-to-year.

Benefits of cloud services or software-as-a-service for AP processing



Interest in cloud services or software-as-a-service is clearly growing in the B2B realm, and this year's survey responses provide several reasons for that trend. The perceived benefits cited most often: minimal IT involvement (26 percent), no capital investment (22 percent), no software or hardware (17 percent), and lower cost per invoice (13 percent). Fast startup, cited by 12 percent of respondents a year ago, decreased to 9 percent this year.

Disadvantages of cloud services or software-as-a-service for AP processing



As is often the case with any emerging technology, cloud-based services have not yet saturated the AP market. Survey respondents reported the following potential concerns most often: risks to data security (19 percent), problems integrating with ERP solutions (16 percent), lack of control over changes to software (11 percent), limited ability to customize a solution (19 percent), and potential problems with bandwidth, connectivity, or "down" time (13 percent).

TECHNOLOGY SPENDING

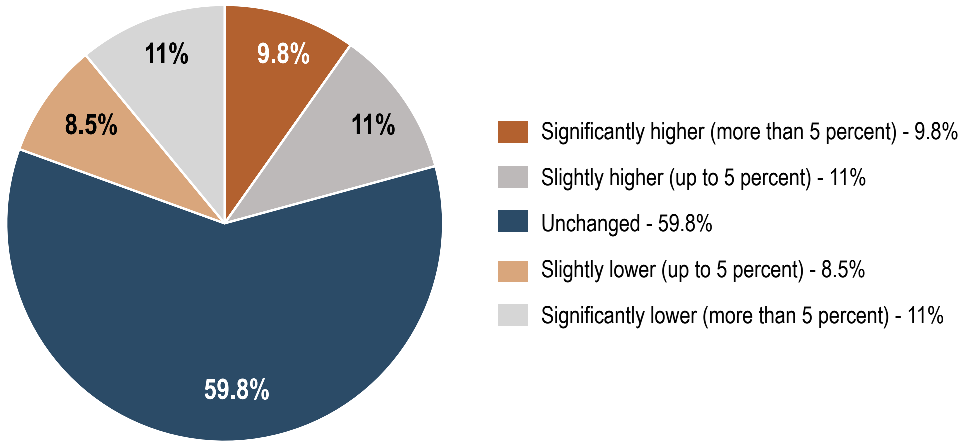
Capital budget for AP automation projects

Planned capital spending for AP automation projects has stayed steady since the 2013 survey. The percentage of respondents saying their budgets are unchanged is 59.8 percent, compared with 56.8 percent a year ago.

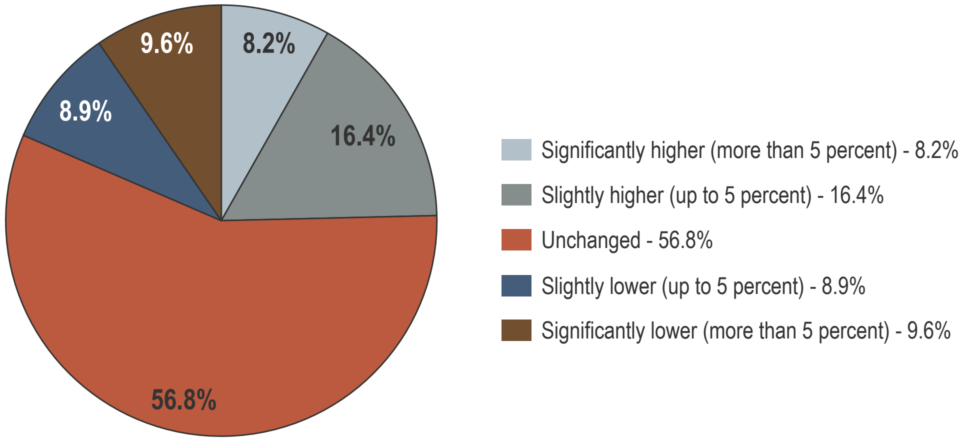
It appears the percentage of those planning increases in their budget has gone down slightly, from a combined 20.8 percent (11 percent slightly higher and 9.8 percent significantly higher), compared with 24.6 percent in 2013 (16.4 percent slightly higher and 8.2 percent significantly higher). Significantly higher was defined as an increase of more than 5 percent.

The percentage of those saying they have lower budgets for AP improvements this year has decreased slightly to 19.5 percent (8.5 percent slightly lower and 11 percent significantly lower), compared with 18.5 percent in 2013 (8.9 percent slightly lower and 9.6 percent significantly lower). Significantly lower was defined as a decrease of more than 5 percent.

2014



2013



Percent of overall AP budget spent on automation projects

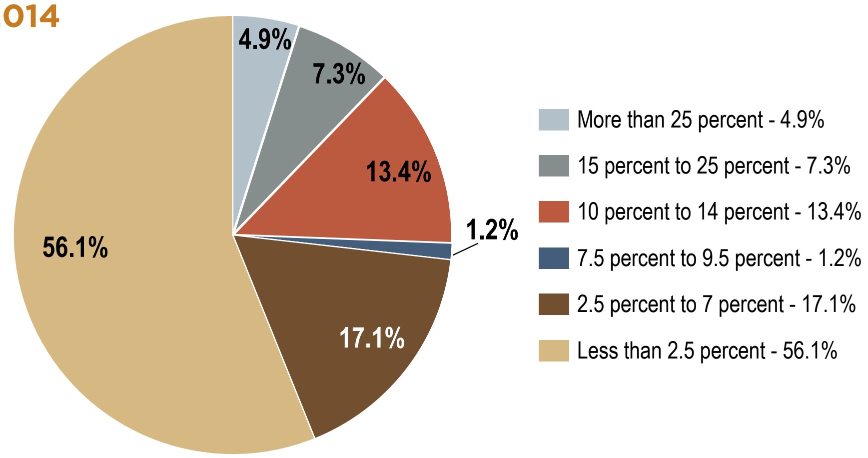
The survey asked respondents how much of their overall budget for their accounts payable operations is spent on automation projects, and the results show that figure inching up in 2014 compared with the previous year.

Those spending the highest levels, 25 percent or more of their budget, stayed about the same at 4.9 percent this year, compared with 4.2 percent in 2013.

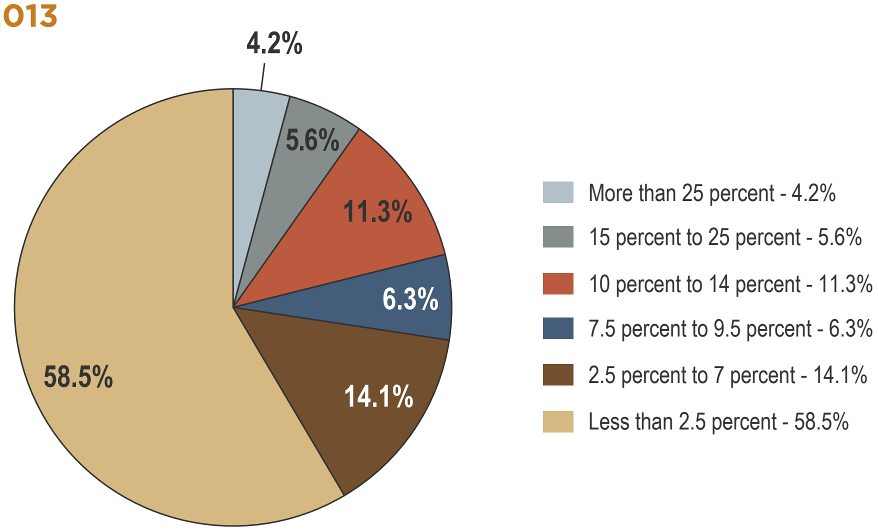
There were slight increases in those spending between 10 percent and 25 percent: 20.7 percent this year, compared with 16.9 percent the previous year.

Organizations that spend less than 2.5 percent of their budget on automation projects still far outweigh those with higher levels of investment in technology, although the number decreased slightly to 56.1 percent this year, compared with 58.5 percent in 2013.

2014



2013

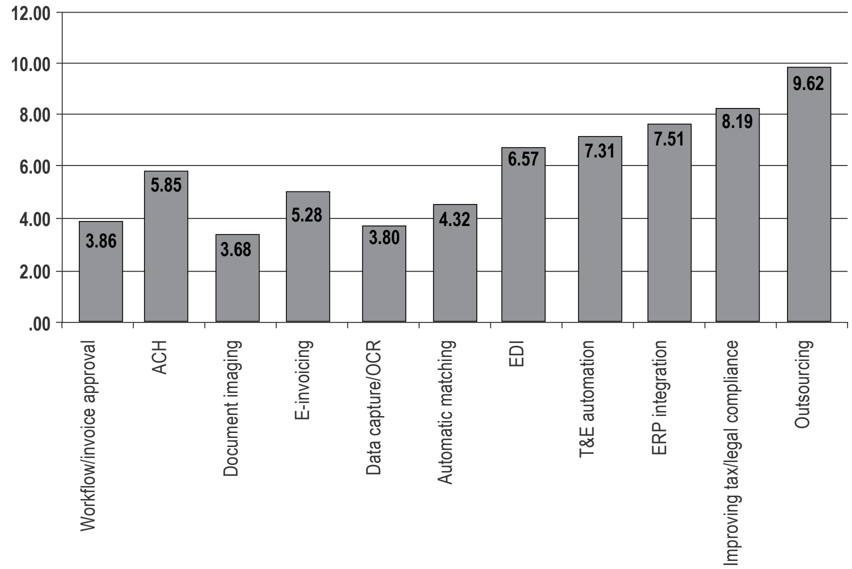


Operational priorities

Document imaging and data capture have moved up to the top two operational priorities for 2014, with respondents ranking them as the most important on a scale of 1 to 11, with 1 being the most important. They replace the 2013 top priorities of workflow / invoice approval, which came in third place in this year's rankings, and ACH, which placed sixth.

Outsourcing remained by far the lowest operational priority of the 11 named in the survey, followed by improving tax and legal compliance, ERP integration, T&E automation, and EDI, which all were ranked in exactly the same order in 2014 as they were in 2013.

2014



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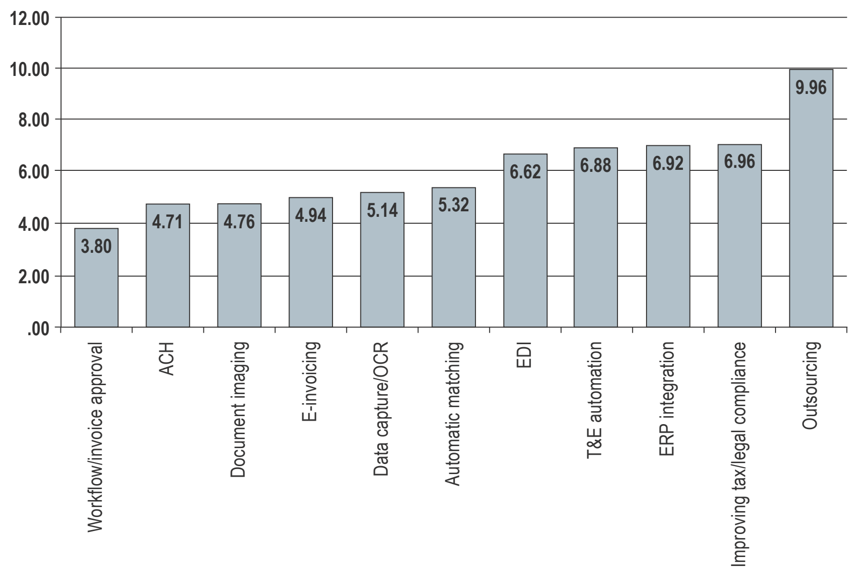


Obstacles to getting AP automation projects approved

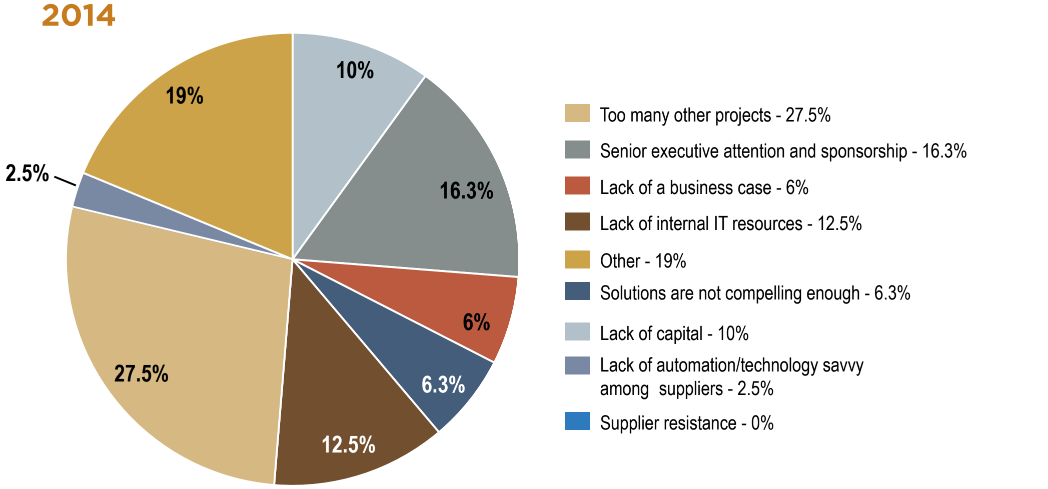
Competing projects remained the top obstacle to getting AP automation projects approved in the 2014 survey, although the figure came in much lower at 27.5 percent, compared with 33.3 percent in 2013.

Respondents ranked several other obstacles as their biggest challenges, although those figures dropped in a year-over year comparison, too: senior attention and sponsorship of AP automation projects (cited by 16.3 percent this year, compared with 19.6 percent in 2013); lack of internal IT resources (12.5 percent, compared with 13 percent in 2013); and lack of capital (10 percent, compared with 15.2 percent in 2013).

Two other obstacles came in slightly higher in the 2014 survey: Solutions are not compelling enough (6.3 percent, compared with 5.1 percent in 2013); lack of a business case (also 6.3 percent, compared with 4.3 percent in 2013); and lack of automation or technology savvy among suppliers (2.5 percent, compared with 1.4 percent in 2013).

Interestingly, none of the respondents on either survey ranked supplier resistance as an obstacle to getting AP automation projects approved.

2014



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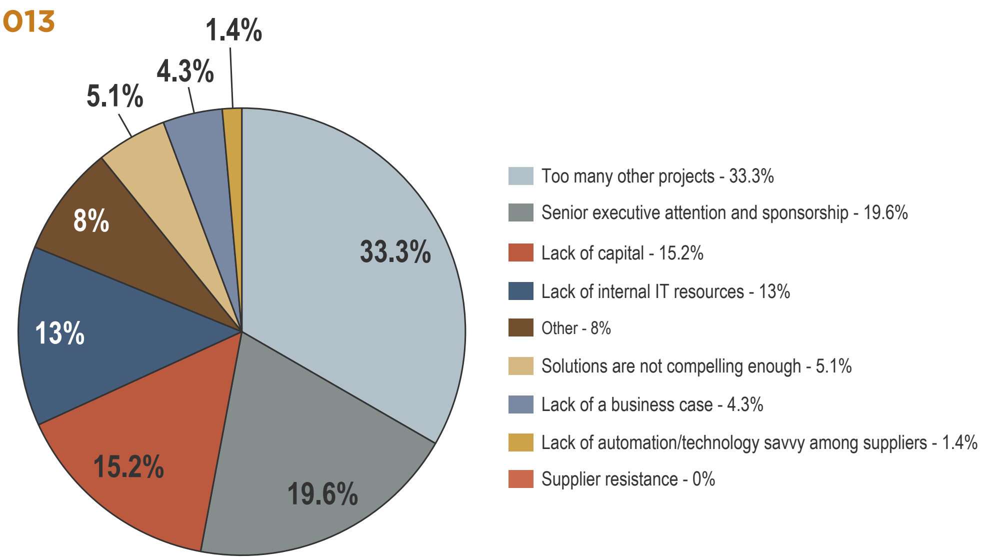


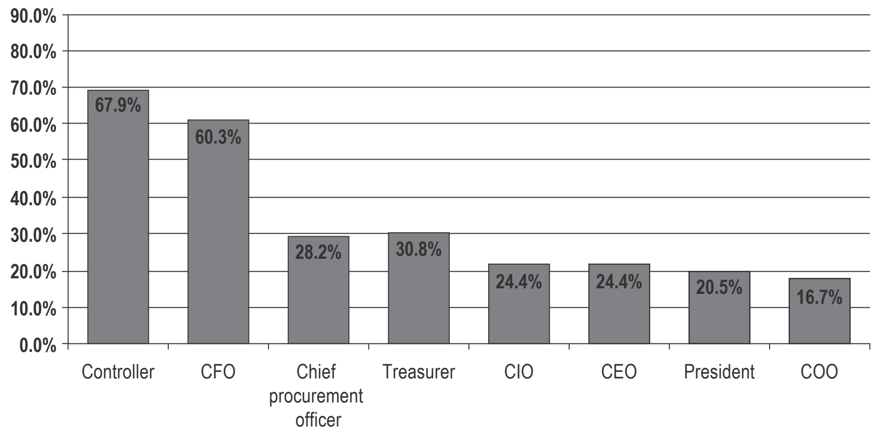
Executives who are actively aware of AP automation efforts

The survey looked at which executives might be persuaded to be champions of automation efforts in organizations by determining which of those are actively aware the initiatives exist.

The controller and the CFO remain the most likely to be aware of AP automation efforts, according to the 2014 survey, although the number of respondents naming them dropped in the past year.

However, organizations seem to be making strides in spreading awareness of AP technology initiatives among other executives. This year's study showed greater perceived awareness of these projects among the four job titles ranked the lowest. Chief operating officers came in last with 16.7 percent naming them (compared with 11.5 percent in 2013); president, 20.5 percent (13 percent in 2013); chief information officer, 24.4 percent (20.6 percent in 2013); and CEO, 24.4 percent (17.6 percent).

2014



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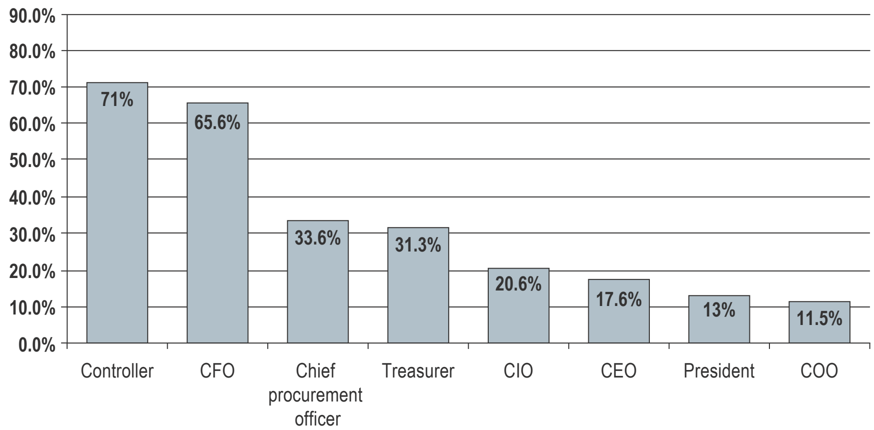

CONCLUSION

The potential of AP automation has been touted for a long time, but this year's survey results provide more evidence that it's slowly being realized.

There is little doubt, for instance, that automation is helping redefine the sweet-spot for invoice processing costs — now hovering between $2 and $5 per invoice — and causing the number of companies paying more than $10 per invoice to drop. It's also noteworthy that companies are reporting a decline in invoice entry and payment error rates.

But AP automation technology is still a long way from becoming the norm. Less than half of this year's survey respondents said they currently make most of their payments electronically. However, more than 90 percent are moving in that direction, with card-based solutions gaining favor because of the popularity of buyer rebates.

Although lack of executive support and limited resources remain persistent challenges, AP professionals said they're making the implementation of technology initiatives a top priority on their to-do lists. They also are exploring the use of cloud services and SaaS solutions.

The switch to AP automation may be evolutionary as opposed to revolutionary, but its impact is bound to be enduring.

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