

## Accounts Payable

### Processes



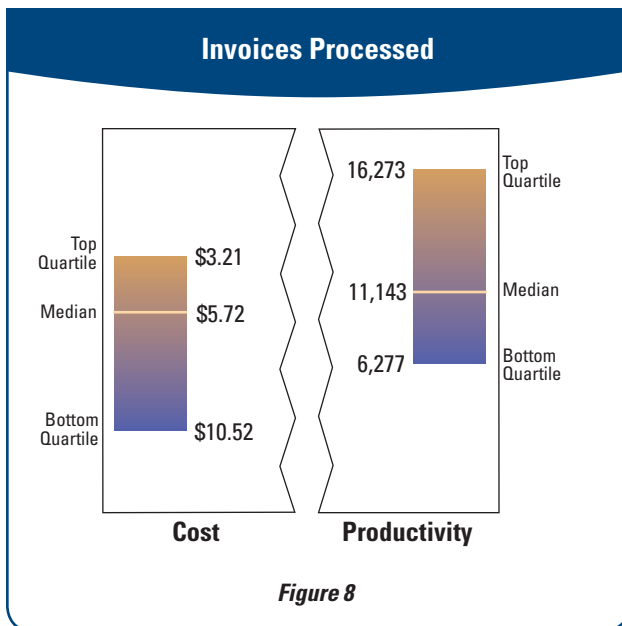
### Activities

- Maintain AP/PO vendor masterfile
- Maintain/manage electronic commerce
- Audit invoices and key data into AP system
- Approve payment
- Process financial accruals and reversals
- Process taxes
- Research/resolve exceptions
- Process payments
- Respond to inquiries
- Retain records
- Adjust accounting records
- Generate manual or “special” check disbursements
- Maintain/enhance AP systems
- Manage procurement card (P-card) program
- Establish and communicate expense reimbursement policies and approval limits
- Capture and report relevant tax data
- Approve reimbursements and advances
- Process reimbursements and advances
- Manage personal accounts

APQC’s research indicates that there is a substantial gap in AP costs between organizations that have taken full advantage of centralization and electronic processing options and those that have not. Also, organizations that have made the effort to standardize their systems and policies achieve cost and productivity advantages.

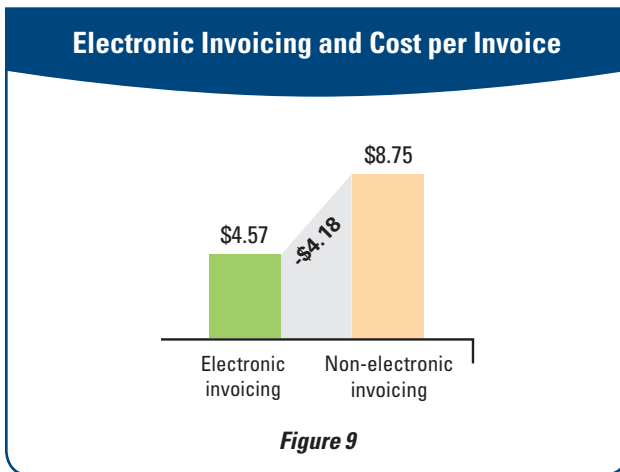
In the AP function, invoicing unit cost is a critical performance benchmark. As depicted in Figure 8, the average cost per invoice is \$5.72, but there is a fairly wide variance between the median and the top and bottom quartiles. Organizations at the bottom quartile have unit costs roughly three times as high as those in the top quartile.

There is a similar variance between highly productive AP functions and less productive AP functions; top quartile performers process almost three times as many invoices per FTE as those in the bottom quartile (Figure 8).



To understand variations in cost, APQC has looked further at business practices and outcomes. Highlights of our findings follow.

Organizations using electronic invoicing tend to achieve markedly lower costs than organizations that do not: Savings run more than \$4.00 per invoice (Figure 9). Dollar amounts displayed in Figure 9 are median performance for each group.



## Organizational Structure

Centralized AP operations have an average cost per invoice of \$5.00 compared to an average of \$7.77 among decentralized operations (Figure 10). Meanwhile, shared service AP operations have an average cost per invoice of \$5.29 compared to an average of \$7.29 among operations without shared services (Figure 11, page 26). Two conclusions can be drawn: First, implementation of centralized or

## Centralized AP Structure and Cost per Invoice

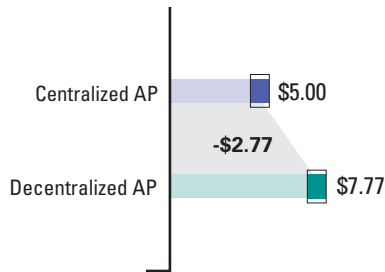


Figure 10

## KEY TERMS

A **centralized structure** is one that is concentrated into a single grouping of staff specializing in a specific function and/or process that serves the enterprise. This structure does not typically have a charge back/cost recovery mechanism in place.

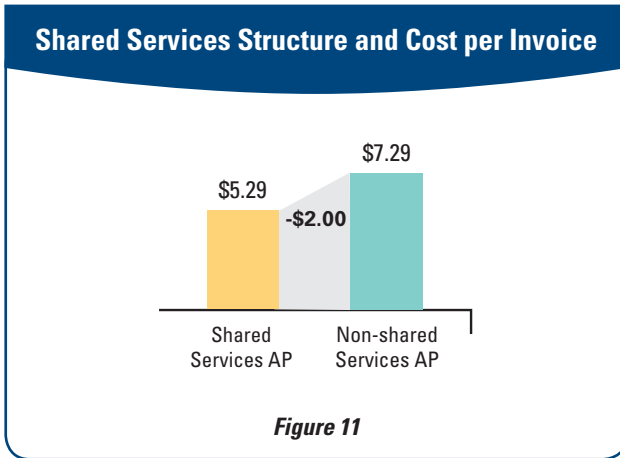
A **decentralized structure** is one in which like functions, processes, and/or activities are carried out across multiple areas.

A **shared service structure** is one that is created for the purpose of combining common or repetitive processes from multiple business units and centralizing them into one location, typically with service level agreements and charge back/cost recovery mechanisms in place.

**Enterprise-wide standards** are systems and policies adopted by an organization to standardize functions.

**Electronic invoicing** involves the use of invoice processing by electronic data interchange (EDI), which is the linking of computer systems allowing vendors or payments to be transmitted between the organization's and vendors' systems.

shared AP services tends to decrease unit costs, and second, there is not much difference between shared services and centralized accounts payable functions. Structurally, they are very similar, so this result is not surprising.



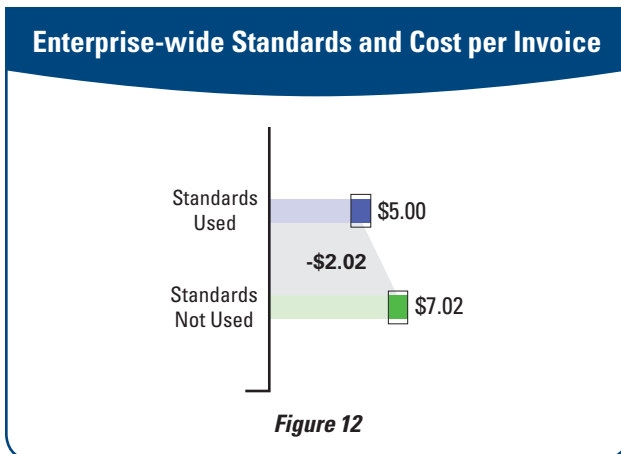
Centralized AP operations achieve a productivity advantage over decentralized operations: They process at the median 11,250 invoices per FTE compared to 8,760 among decentralized operations.

Centralized AP operations at the median process 59 percent of their invoices manually compared to a median of 95 percent among decentralized operations (Figure 12). This may indicate that creating or improving automated processing capabilities often goes hand-in-hand with centralization efforts and cost reduction.

Another outcome within a centralized structure is cycle time reduction within error resolution.

Number of Days to Resolution	
Centralized	Decentralized
0.5 day	2 days

Organizations adopting enterprise-wide standards have an average cost per invoice of \$5.00 compared to an average of \$7.02 among other organizations (Figure 12). This practice focuses at least as much on policies and procedures as it does on systems and technology, yet it produces tangible benefits. Since it



may be much less expensive to implement policy and procedure changes than major systems changes, this area is one in which organizations might find quick benefits without major investment.

Adopting enterprise-wide standards has a distinct process quality benefit: Organizations with enterprise-wide standards have an average invoice intervention rate of 11 percent compared to an average of 18 percent among other operations.

Organizations using electronic invoicing are twice as productive as those without it: They process 14,570 invoices per FTE compared to 7,294 invoices per FTE among other operations.