

# Accounts Payable KPIs



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Do you know how efficiently your accounts payable department is operating? Sure, you may notice the occasional late payment, but how is the department performing overall? One way to find out is to use Key Performance Indicators or KPIs, which allow you to measure AP performance.

But what is a KPI and why are they an important metric to measure?

## What Is a KPI?

A key performance indicator or KPI is a quantifiable measure of performance. KPIs can be assigned to any area of your business that you believe is important.

Goal setting and KPIs are designed to work together, since tracking KPIs lets you

to see how close (or far) you are from achieving your goals, while allowing you to weed out inefficiencies along the way. For example, you may want to use KPIs to measure sales results, campaigns, and projects, or even employee performance.

What many people may not realize is that these KPIs can be used to measure accounts payable performance.

## **Why Measure AP Performance?**

Measuring the performance of accounts payable is not the goal in and of itself. If you can measure performance, then you can improve it. The overall goal is to improve the performance of your accounts payable team over time by applying best practices for accounts payable.

AP performance can impact your business directly, in both good and bad ways. If you're content with the status quo, you may never know exactly how much time or money your business is spending processing AP. And while increasing efficiency in processing AP is important, the accounts payable department is so much more than simply paying bills.

In a procure-to-pay environment, your AP department is locating and creating relationships with vendors, sourcing affordably priced goods and services for your business, and making sure that these same suppliers are paid timely.

For example, Jeff is responsible for sourcing new vendors and maintaining a relationship with them. Jeff does not handle the payable process directly but hands it off to his team. In the meantime, his team has routed several invoices from the new vendor to the department manager for approval.

Since the manager is out this week, they will remain on her desk until she's back in the office, since there is no designated backup approver.

When AP finally does get the approved invoice back, it's already three days past the due date. In the meantime, Jeff receives a call from the vendor, asking why the payment is late, particularly since during negotiations, the supplier provided Jeff's company with a 2% discount if they paid early.

Not only did Jeff's company not take advantage of the discount, which would have saved them close to \$100, but the first two invoices the new supplier sent are

already three days past due, and the payment hasn't even been processed yet.

Jeff promises to push the payment through, but the supplier, no longer so amiable, has now shortened their due date from 30 days to 10 days for future orders and eliminated the early payment discount.

Jeff now has the option to try and source yet another supplier, accept the new payment restrictions, or try and rebuild the supplier relationship.

That's why AP performance needs to be measured. Accounts payable KPIs and accounts payable benchmarking is how to measure performance.

## **What Is the Purpose of KPIs in Accounts Payable?**

KPIs can help Accounts Payable teams continuously measure performance against benchmarks for key business objectives. This can then be used to set targets for continuous improvement.

AP has a lot of moving parts, from procurement to invoice payment. For businesses that process a high number of invoices regularly, tracking KPIs in AP can be beneficial.

From tracking the cost of processing an invoice to the efficiency of your AP team, KPIs can help identify potential issues such as repetitive errors, late and duplicate payments, and constant penalties, all areas of concern that will need to be assessed.

Using KPIs in AP is usually centered around common AP challenges. According to a survey from Ardent Partners titled AP Metrics for 2021, these are the top pain points for AP:

- Invoice and payment approvals that take too long
- High percentage of invoice exceptions
- Lack of respect or status for the AP department
- Too much paper

## Top Pain Points For Accounts Payable



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These only represent a few of the problem areas that AP departments typically face, with KPIs useful in a variety of areas.

## What Are the Key Performance Indicators In Accounts Payable?

KPIs in AP are used for a variety of reasons. They help measure the efficiency of the AP department, look at the cost involved in processing an invoice, and also look at the time involved in processing an invoice.

Measuring KPIs in AP can improve productivity, streamline workflows, and help to maintain a positive relationship with vendors and suppliers.

While it's up to each business to determine which AP KPIs they should be tracking, the following are the most common KPIs tracked by small and mid-size businesses.

### • Cost Per Invoice

This is perhaps the most important KPI that can be tracked in accounts payable, and certainly, the main argument as to why making the move to AP automation software is essential.

Cost per invoice is measured by taking all of the various costs and labor that go into processing a single invoice by providing an average cost which includes:

- **Labor cost** - From the initial approval process to three-way matching, every hour that an employee spends on accounts payable costs money. Tracking the total number of labor hours involved in processing one invoice may be an eye-opening experience, but a necessity. In addition, make sure you also include time spent entering invoice information into your accounting software, processing checks for payment, stuffing those checks into an envelope, and taking them to the post office.
- **Supplies cost** - The ink for the printer that you print checks on costs money. So do the check stock and the envelopes.
- **Postage** - Once you print a check, you'll also have to spend more money on postage to mail it. That needs to be added to the cost as well.
- **Infrastructure** - Unless you're using a free accounting software application, the cost of the software itself must be figured into your final cost calculation.

AP Automation with AI and digital transformation in accounts payable reduces cost and significantly reduces paper use when processing invoices.

## ▪ Invoice Processing Time

Nearly as important as processing cost is the average time to process invoices, since time directly reflects labor costs. Invoicing processing time can also help pinpoint roadblocks in invoice approval since KPIs can track the time spent on an invoice from receipt of the invoice to payment. If it takes you three weeks to get an invoice approved, you'll know it from tracking this very important KPI.

## ▪ Average Approval Time

If nothing else convinces you to make the move to AP automation, results from the average approval time KPI just might tip the scales. When you're using a manual approval process, you're routing an invoice to an approver or sometimes multiple approvers. But once the invoice is in their possession, you have little control over the amount of time it takes to approve an invoice. And approval delays are more than inconvenient.

They can also result in a loss of any early payment discounts you may have been offered and frequently result in late payment penalties.

## ▪ **Invoices Processed Per Employee**

This KPI is useful for businesses that have varying invoice processing times. If you're not sure where the process lags, one of the best KPIs to track is total accounts payable invoices processed per employee. This metric is only useful if you have a large number of employees processing AP regularly.

## ▪ **Number of Invoices Processed with a Purchase Order**

If you're still on the fence as to whether a procure-to-pay application is necessary for your business, tracking this KPI can help you make that decision. If the majority of your invoices are non-PO, meaning they're received directly from the vendor without a purchase order, a procurement application may not be at the top of your wish list.

But if the majority of your invoices have a purchase order and a shipping receipt, using a procure-to-pay application like PLANERGY can automate the entire AP process from purchase to payment.

## ▪ **Invoice Exception Rate**

An invoice exception occurs when purchase order data and invoice data don't match up. Exceptions can also occur during the approval process, which can bring the entire AP process to a halt. The biggest problem with an invoice exception is that it can increase the likelihood of duplicate payments or very late payments.

In any case, knowing the invoice exception rate at your business can help you pinpoint where the system has failed, and what needs to be done to improve it.

## ▪ **Percentage of discounts taken**

Not every business gets discounts from their suppliers, but if your company does, are you letting those discounts remain on the table, or are you taking advantage of them? This KPI will let you know how many discounts have been offered as well as how many you've taken advantage of. Having this information lets you know if you need to streamline your AP processes from end-to-end to expedite approvals or processing times.

## ▪ **Invoices Managed With Straight-Through Processing**

One of the most powerful benefits of AP automation is the promise of "straight-through" invoice processing (STP). In this process invoices that are received, processed, and paid without the need for human intervention. Tracking the total number of invoices processed this way, and using process improvement to make sure that number grows, cuts costs and frees up your AP staff to deal with tasks that generate more value for your organization.

As of 2018, most companies were processing just 19.2% of their invoices using STP, while best-in-class firms reported a much heftier 65.3%. Any opportunity to reduce the need for human oversight (and the risk for human error) in the payables process is an opportunity to build value and reduce resource consumption. As a result, STP is a critical metric for any AP department looking to grow their strategic role while reducing wasted time, money, and labor.

## Key KPIs in Accounts Payable



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## What Are the 3 Main Measures of Success in AP?

There are numerous KPIs that can help measure AP success, but three of the most important ones are also tied to AP automation. These measures are:

### 1. Improved Invoice Cycle Times

If your goal is to process AP in ten days, and your department takes more than 20, you need to reassess your processes. Remember, improving invoice cycle times helps eliminate late payments and penalties, and also helps to preserve your good relationship with your suppliers. If any metric can represent success in AP, it is improving your invoice processing time.

### 2. Increased Efficiency

Even if your AP department processes invoices quickly, do you want them spending their time matching documents, answering payment questions, or hunting down a misplaced invoice? Increasing your AP team's efficiency will benefit everyone, not just your suppliers. It can also save

you a significant amount of money.

### 3. Increasing the Number of Invoices Processed

If your employees have to pause every time a document is missing, or go and hunt down a supervisor to obtain invoice approval, their invoice processing numbers will remain low. By providing an environment where tedious, time-consuming work such as matching and data entry is completed automatically, your employees can be much more productive, spending their time working on something more important than matching or filing.

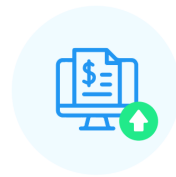
#### 3 Main Measures of Success in Accounts Payable



Improved invoice  
cycle times



Increased  
efficiency



Increasing the number  
of invoices processed

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## How Do You Measure Accounts Payable Performance?

Using KPIs in your business is the easiest way to measure AP performance. And while monitoring is the first step towards having a more efficient AP department, it's important to take action on the results of those KPIs.

For example, ABC Manufacturing uses KPIs to measure AP performance. While most of their KPIs aren't terrible, one area stands out: invoice approval time. One way to improve invoice approval times is by making the switch to cloud-based AP automation software that includes invoice automation, routing invoices to the appropriate approvers.

But it doesn't stop there. AP automation will also send reminders to the approvers if the invoice isn't approved and send it back to the payable team in a timely fashion. And with approval automation, you can assign backup approvers should someone be out of the office, instead of simply having the invoice sit on someone's desk for days or even weeks before approval.

Using the results of the KPIs, ABC Manufacturing made the decision to move to AP automation, which streamlined the entire approval process, allowing them to take advantage of early payment discounts, something they were unable to do before.

Invoice turnaround time is another area that is greatly improved by AP automation, since not only does it take care of the invoice approval bottlenecks, but it also automates the entire three-way matching process, flagging any invoices that don't match for manual investigation.

Finally, AP automation will greatly increase the number of invoices processed by staff, since they'll no longer have to spend time on data entry, manual matching, and delayed invoice approvals.

Accounts payable is arguably the most important department in your business. It's time to make it run as efficiently as possible. While KPIs are a useful measure to determine efficiency, if you're looking to improve accounts payable KPIs, there's no better way to start than by introducing an AP automation solution to your business.

## **What's your goal today?**

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