

# A Checklist for Developing a Future-Proof AP Organization

*By Nicolas Walden and Amy Fong*

## Executive Summary

Transforming the accounts payable process delivers indisputable value in the form of reduced transaction costs, traceability and increased control over payment timing. Data from The Hackett Group's most recent Purchase-to-Pay Performance Study shows that organizations with high levels of AP automation save 54% on invoice processing costs and use one-third as many internal employees. However, top-performing organizations don't focus solely on process automation. Rather, they take a multifaceted approach – one that includes centralizing invoice receipt, digitizing all information, optimizing internal resources, and carefully balancing processes managed in-house with those that are outsourced. Recently, top performers have begun to focus on adding capabilities designed to deliver additional value, such as mitigating invoice fraud, enhancing quality and compliance, and increasing working capital value from the financial supply chain.

## Introduction

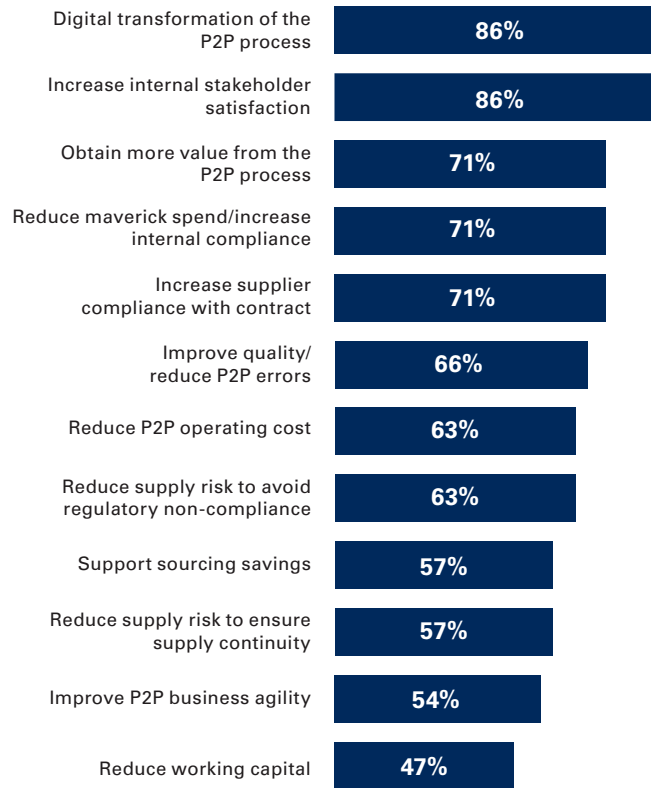
When evaluating the case for accounts payable improvement, companies should assess the potential value beyond basic productivity and cost savings. Top-performing AP organizations focus on effectiveness objectives such as increasing stakeholder satisfaction, supporting sourcing savings, improving agility and better managing working capital (**Fig. 1**).

Despite the clear benefits of optimizing the AP process, many companies still have costly manual processes, longer cycle times and poor control over working capital. The most common barriers to transformation are end-user resistance to change and, within the AP function, a lack of knowledge, resources and IT budget. Some have difficulty making the business case for transformation in the absence of extremely high transaction volumes.

To address each of these areas, The Hackett Group organizes its transformation discussions using a service delivery model framework which includes capabilities in human capital, service partnering, organizational design, governance, technology, service design and analytics/information management. We will explore each of these areas in this report.

**FIG. 1 Top objectives of purchase-to-pay organizations**

Percentage of respondents who consider objective to be of "critical" or "major" importance



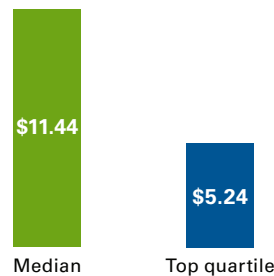
Source: Purchase-to-Pay Key Issues Study, The Hackett Group, 2018

### Information and Analytics Capabilities

Information comes in many forms, including data standards, report design, scorecards, KPIs, master data elements and repositories of unstructured information. Analytics comprises building predictive models and investing in a big data strategy. Characteristics of top-performing AP organizations include:

- Supplier master data standards are in place, used extensively and periodically refreshed. This results in significantly lower supplier master data setup costs (Fig. 2). Formal accountability for master data changes is centralized and controlled. Supplier onboarding processes are streamlined, and technology is used to enhance the user experience and balance data collection for risk mitigation with efficiency.

**FIG. 2 Supplier management process cost per supplier master update**



- Supplier master management: Labor cost + outsourcing cost  
 - Quartiles are calculated based on the specific metric.

Source: Purchase-to-Pay Performance Study, The Hackett Group, 2017

**\$5.24**

Top-quartile  
 process cost  
 per supplier  
 master update.

- Global/enterprise-wide supplier payment terms exist, including early payment discounts. The length of supplier payment terms is consistent with leaders in most industries and applied based on thorough supply base segmentation.
- Policies and procedures are clearly documented and communicated. Compliance with policy is high due to policy ownership, enforcement and electronic monitoring. Metrics are managed from an end-to-end point of view with accountability assigned.
- Dashboards and analytics tools provide near-real-time visibility into process performance and identify further optimization opportunities, for example in electronic invoicing, use of preferred channels or transaction quality improvement.

### Enabling Technology Capabilities

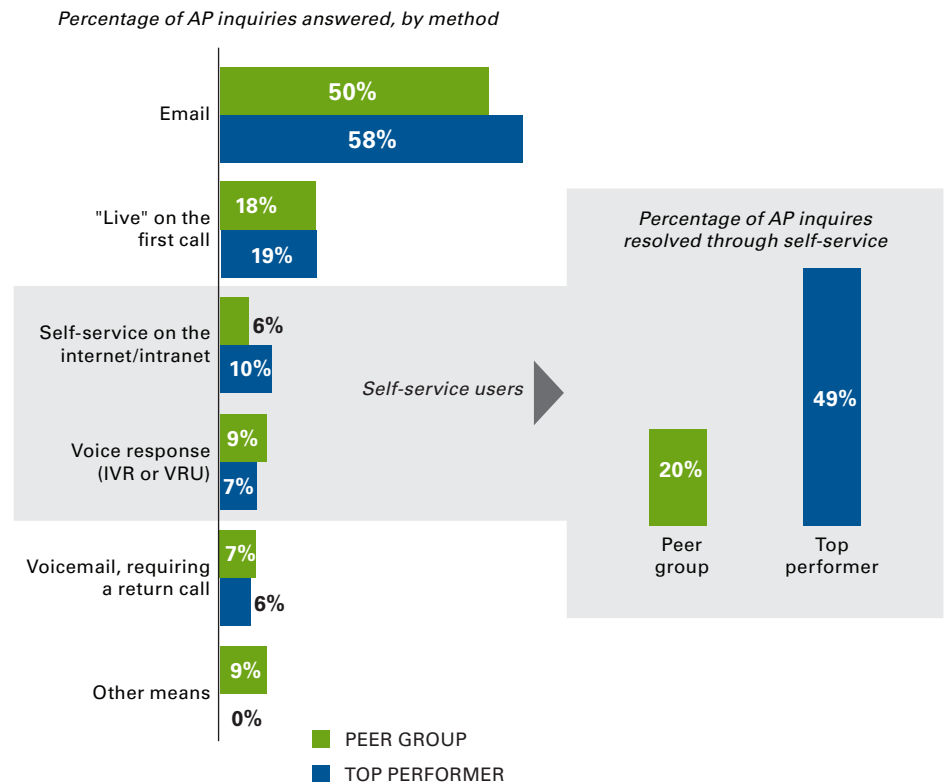
Enabling technology includes the creation of technology platforms required to support service delivery. Characteristics of AP top performers include:

- Invoice receipt is automated to the fullest extent possible. A combination of supplier networks, portals and EDI is used, based on supplier relationships and transaction volume. Automated business rules provide invoice validation and return-to-vendor capability. Advanced data capture effectively fills gaps where electronic supplier connectivity is not possible.
- Workflow for invoice routing, approvals and matching is electronic and automated, including routing for non-PO invoices to appropriate approvers. Machine learning technology enhances workflows and discrepancy management to automate collection and coding of missing information.
- Suppliers and internal stakeholders access a secure online portal as their primary means to review payment status, submit supplier master change requests, view orders, view performance and review inventory/supply status (Fig. 3). A single, online

**49%**

Inquiries resolved without AP intervention at top performers with an online portal or voice response unit.

**FIG. 3 Self-service technology**



Source: Purchase-to-Pay Performance Study, The Hackett Group, 2017

portal for employees to perform all purchasing and AP functionality (e.g., complete requisitions, approve requisitions, check status, approve payments) is used. Basic chatbot services are available to handle the most frequent AP questions.

- Supplier master information is submitted through an online portal with workflow routing for approval. Third-party data validation and enrichment providers are included in the workflow, as appropriate. Upon approval, information is automatically updated into the supplier master file. Field-level control and workflow are in place for designated data owners/approvers and data-entry staff.
- Robotic process automation is deployed to improve automation of repetitive activities, e.g., invoice reconciliation, invoice unit/quantity conversion, payment runs or data integration. Predictive analytics are used to mitigate the risk of payment errors or fraud ahead of the payment being made.

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At top performers, internal FTEs are focused on high-value analysis and customer-facing activities.

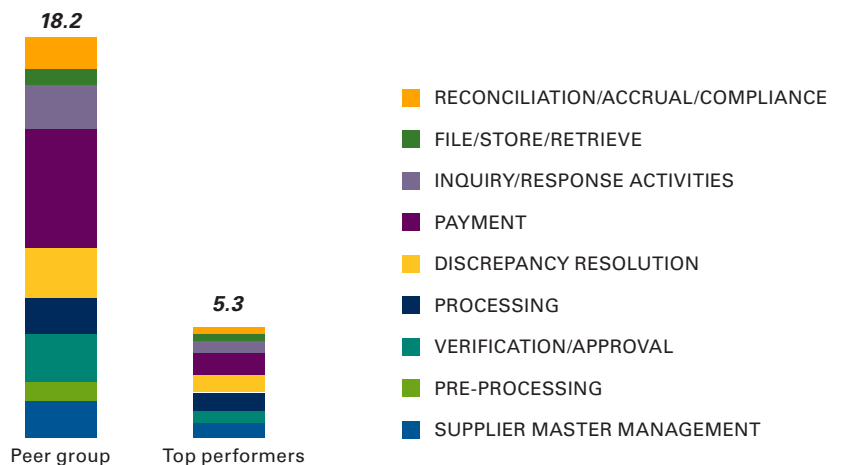
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### Human Capital Capabilities

Human capital includes formal training and skills-development opportunities as well as recruiting and retention programs. Characteristics of AP top performers include:

- Training is done on a formal basis with emphasis on improving day-to-day tasks as well as expanding the role of resources to support higher-value activity. Resources receive end-to-end process training.
- Skill levels among AP staff are consistently high and support delivery on tactical and higher-value process activity. There is a high level of skills to support the end-to-end process and to effectively deliver business improvements.
- Automation and outsourcing replace routine roles; internal FTEs are focused on high-value analysis and customer-facing activities such as discrepancy resolution and inquiry response. As a result, top performers require less than one-third the number of internal FTEs as the peer group (Fig. 4).

**FIG. 4 Internal AP FTEs per \$ billion in spend**



Source: Purchase-to-Pay Performance Study, The Hackett Group, 2017

### Organization and Governance Capabilities

Organization and governance capabilities include how decisions are made with respect to organizational entities, structure and reporting lines. Characteristics of AP top performers include:

- Full standardization of policies and procedures on a global basis, with localization where justified by local requirements. Policies and procedures are clearly documented and communicated. Compliance with policy is high due to policy ownership, enforcement and electronic monitoring.

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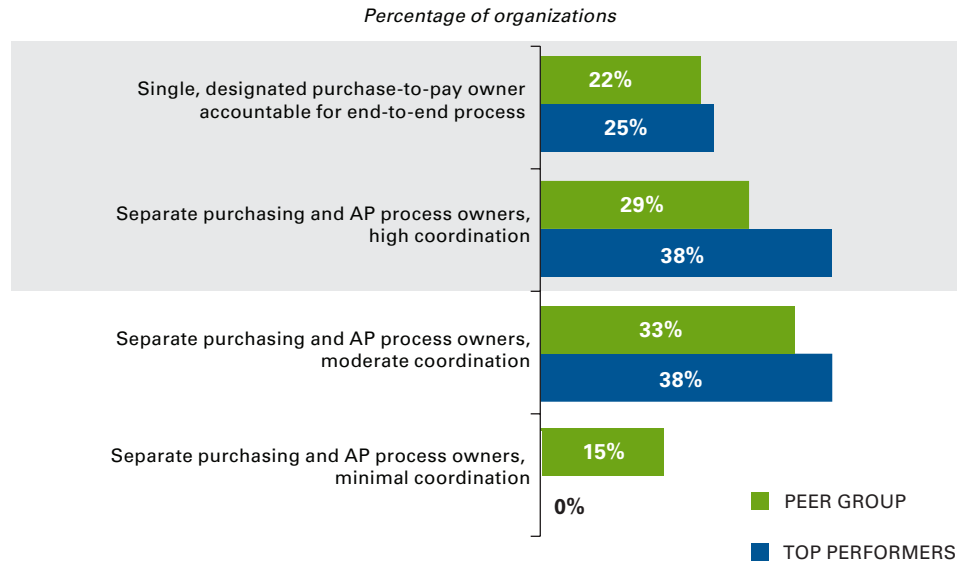
**63%**

Top-performing  
AP organizations  
with a high level  
of end-to-end  
process alignment.

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- RACI models support the process down to an activity level with clear accountability and definition of roles. The RACI model is shared and well understood by stakeholders. Two-way matching models are utilized for specific commodities and spend types such as assumed receipt or negative confirmation.
- Streamlined purchasing and approvals policy minimize checkpoints and push reviews to the lowest level of fiscal responsibility.
- Single accountability for the purchase-to-pay process exists at the enterprise level, with ownership defined for process improvement, KPIs and strategy across the purchase-to-pay process. The process is very closely aligned with the strategic objectives of both procurement and finance. Process accountability is aligned with the function that would benefit most (Fig. 5).

**FIG. 5 Degree of end-to-end process alignment in purchase-to-pay**



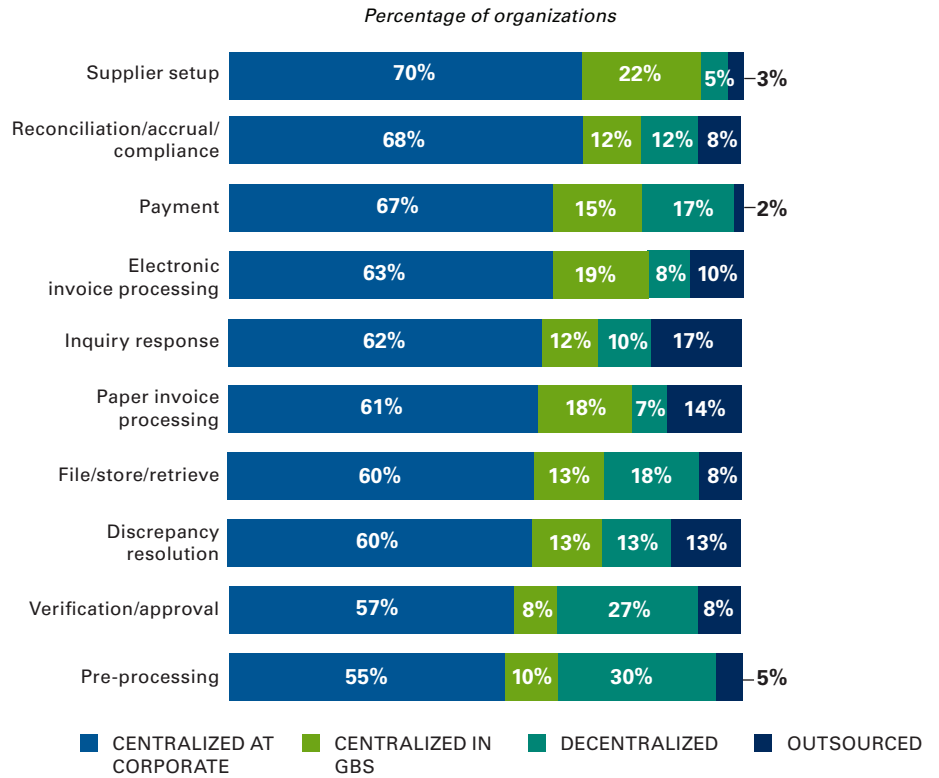
Source: Purchase-to-Pay Performance Study, The Hackett Group, 2017

### Service Partnering Capabilities

Service partnering includes optimizing the mix of in-house versus outsourced work and onshore versus offshore resources. Characteristics of AP top performers include:

- Outsourcing options have been evaluated for single activities and broader process opportunities.
- Supplier onboarding is highly automated, with process management done internally. Any remaining data management activity is considered for outsourcing to a third party.
- AP activities have been segmented (e.g., core vs. non-core), transformed and appropriately outsourced and/or offshored based on a deliberate, systematic service partnering methodology (Fig. 6).

**FIG. 6 AP service placement models**



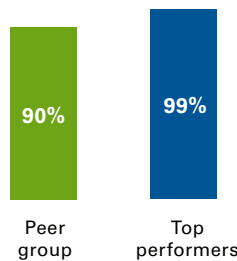
Source: Purchase-to-Pay Performance Study, The Hackett Group, 2017

### Service Design Capabilities

Service design refers to specification of locations where activities and processes are handled. It also includes the creation of standards and exception-handling rules plus definitions of functional roles, responsibilities and performance objectives. Characteristics of AP top performers:

- AP activities are highly automated with common global processes. For example, activities like invoice receipt have been moved to centralized resource pools best suited to meet efficiency and effectiveness objectives (Fig. 7).

**FIG. 7 Percentage of invoices sent to a central location**



Source: Purchase-to-Pay Performance Study, The Hackett Group, 2017

- A high level of coordination and standardization of supplier payment policies exists between procurement, treasury and the AP department. There is emphasis on working capital, early payment discounts, process efficiency and supplier risk/supply chain financing. Accountability for payment strategy is clearly defined.
- A end-to-end channel strategy with nearly all spend covered by contract or PO is in place. Automated three-way matching is required for highly controlled and risky commodities. Consistent and pervasive use of assumed receipt, evaluated receipt settlement and automation of recurring payments for certain commodities.

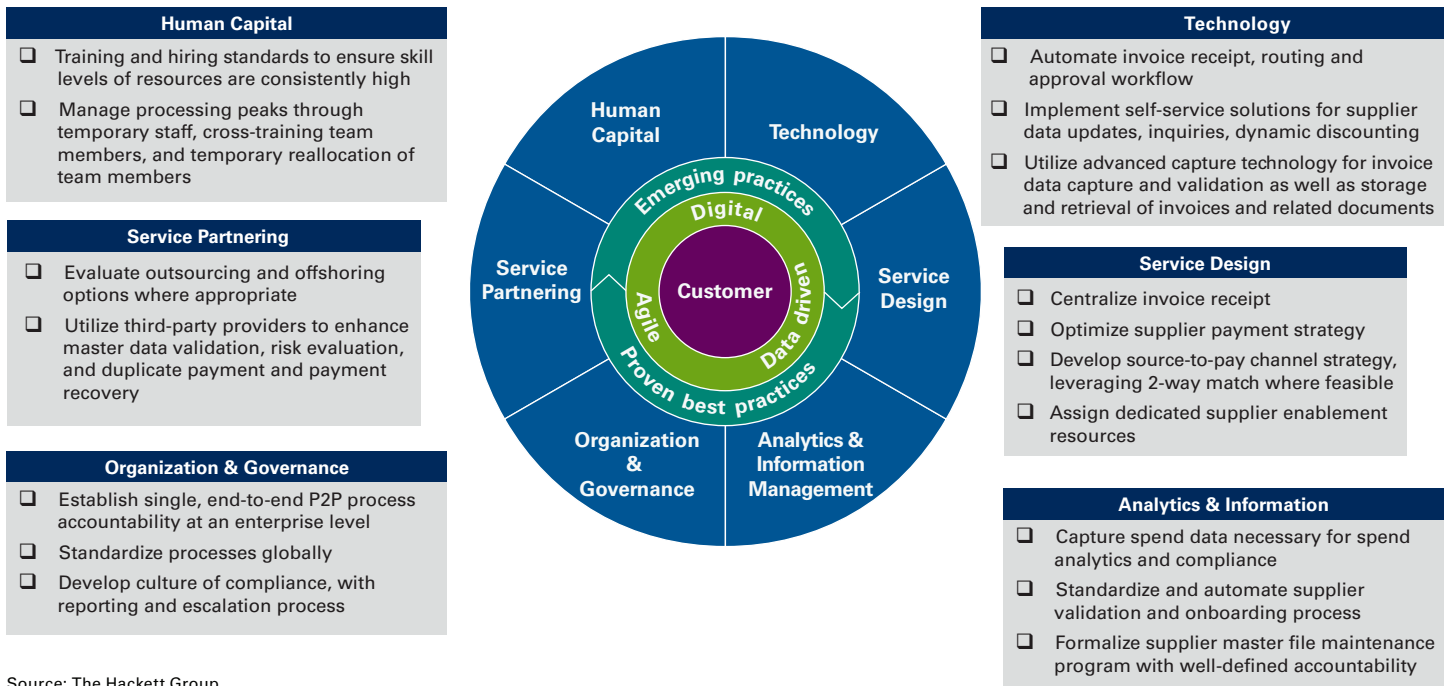
Top performers have a formalized, end-to-end channel strategy with nearly all spend covered by contract or PO.

- Purchasing cards are fully leveraged as a primary end-to-end channel strategy with significant penetration in ad hoc, low-dollar transactions. Purchasing cards are also leveraged as a payment tool to a high degree for specific categories of spend (e.g., e-catalogs). Card policy is clearly written and communicated across the organization. Audits done based on defined criteria. Category blocking and spend limit strategies in place based the usage patterns of cardholders.

### A Checklist for Getting Started

The business case for AP improvement is different for each company, based on available resources, technology landscape and realistically achievable levels of automation given the organization’s current capabilities. Maturing as an AP organization requires addressing every aspect of the service delivery model. The Hackett Group recommends using the checklist in Fig. 8 on the following page (a summary of the points made in this report) as a starting point.

**FIG. 8 Digital service delivery model: AP capability development checklist**



Source: The Hackett Group

## About the Advisors

### Nicolas Walden

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Mr. Walden advises senior executives of large, complex companies on topics including effective sourcing; developing procurement's internal brand; and digital technologies and their impact on operating models. With 20 years of experience in the fields of procurement and finance, he is a frequent speaker at conferences and other events in the UK and Europe, and a regular contributor to online media including Procurement Leaders, Raconteur, Supply Management and Spend Matters

### Amy Fong

*Associate Principal, Procurement Advisory Program, and Program Leader, Purchase-to-Pay Advisory Program*



Ms. Fong has 20 years of experience in industry and consulting with a focus on procurement, supply chain and organizational effectiveness. She helps business leaders improve source-to-pay processes, manage complex supply chain partnerships and mature their organization's service delivery model. She also performs primary research in source-to-pay and operations and is the author of a number of publications on these and other topics.

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