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PAYABLES FRICTION INDEX

BARRIERS TO INVOICE AUTOMATION

May 2019

corcentric

PAYABLES FRICTION INDEX

ACKNOWLEDGMENT

The Payables Friction Index was done in collaboration with Corcentric, and PYMNTS is grateful for the company's support and insight. PYMNTS.com retains full editorial control over the findings presented, as well as the methodology and data analysis.

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Introduction

When it comes down to brass tacks, doing business means being compensated for services rendered. That's where firms' accounts payable (AP) professionals come in, springing into action to onboard clients and suppliers, process invoices and ensure their companies' payment wheels keep spinning.

Inefficient invoice processing — including onboarding, payment and internal process issues — can bring those metaphorical wheels to a halt, taking a heavy toll on firms' bottom lines. Many AP departments still rely on manual, paper-based invoicing systems, according to a recent survey, with snail mail cited by 72.4 percent of AP professionals as the most frequent way they receive invoices. Even more shocking is that 43.8 percent claimed they still receive invoices via fax.

Additional frictions can arise if companies pay suppliers using paper checks, which take time to reach recipients and often require additional resources to settle once deposited. Such processes can produce ripple effects for companies and their partners, too. Late payments hurt suppliers' bottom lines and put them on shaky financial footing as they wait for funds to arrive or clear, and delays can also sour partnerships and damage firms' reputations.

To avoid these outcomes, AP professionals need systems in place to ensure invoices are received and processed, and that suppliers are paid on time without details being overlooked. Automated solutions can help alleviate these AP headaches, though, and PYMNTS' analysis found that a lack of such products is one of the biggest frictions affecting onboarding and invoice receipt.

Digital AP solutions can streamline invoice processing by replacing paper with more straightforward, error-free methods of collecting invoice data. Related departments can use them to transform from cost centers into revenue centers, utilizing the potential of electronic payments and ensuring the capture of early payment discounts.

Some businesses realize that AP innovations are important to keeping their organizations running smoothly. Those that are most interested in them have typically already taken steps to automate their onboarding, invoice receipt and payment processes, according to our research. On average, 71.1 percent of the firms that reported having "very" or "extremely" efficient AP processes expressed the most interest in pursuing innovations.

AP advances do not appear to be top priorities compared to other corporate innovations, however. Many companies are focused on public-facing improvements, or concerned about the time or costs involved, but AP innovations largely appear to be afterthoughts. This could potentially leave many firms' related practices in limbo, and could eventually lead to problems with supplier payments.

The Payables Friction Index: Barriers to Invoice Automation edition, a PYMNTS and Corcentric collaboration, aims to quantify AP friction-associated processes. Our team surveyed executives at 2,570 firms to examine their AP processes, seeking to offer a deeper understanding of the payments issues with which these professionals deal on a daily basis and how automation can help alleviate them. It also aims to provide a profile of those most likely to embrace automation, and why these AP-based innovations often get sidelined by competing priorities.

PAYABLES FRICTION INDEX

These are the key findings we uncovered during our research:

Surveyed firms' average index score was 57.3 out of 100, but varied considerably according to annual revenues.

Scores are based on companies' performances in five key AP business operation areas — onboarding, receipt, approval, payment and "overall," which refers to the number of people involved in the process — and are graded on a scale of 0 to 100. Top-performing firms earned an average of 74.3. Middle performers, at 57.4, were on par with the sample average, while those at the bottom scored just 36.5. Surveyed companies performed best in the overall category with a score of 79, but their lower scores in other categories dragged down overall performance. They earned just 29.5 in offering discount terms and 32.2 in using artificial intelligence (AI), for example.

A chicken-or-the-egg situation arises when pursuing invoice innovations.

Our research found that 71.1 percent of firms that already had "very" or "extremely" efficient AP processes in place were interested in innovation, as were only 32.5 percent of those with less-efficient AP operations. In other words, it appears companies are more likely to become interested in innovations after they have developed efficient AP invoice processing operations. Those with less-efficient operations are not as likely to see innovations as top priorities, largely because their organizations have not yet hammered out processes that work for them.

Firms tend to pay suppliers using the methods with which they are most familiar.

Companies use a wide range of payment options to make their payments, with many using more than one. As much as 80.8 percent still use paper checks to pay their invoices, according to our findings, while 63.8 percent use ACH, 48.2 percent use credit cards, 45.2 percent pay in cash and 19.2 percent use debit cards. That payment methods are widely used does not mean firms are satisfied with them, though. Just 51.3 percent of survey respondents indicated that they were satisfied with making payments via checks, which could indicate that most firms are accustomed to doing so but would prefer alternative options.

Most invoices are approved in under a week, but the process takes longer as more people become involved.

On average, 42.3 percent of invoices are approved between a day and one week. This is the same time it takes for 38.2 percent of recurring payments and 39.1 percent of smaller ones, both of which are more likely to be approved within a single day than other payment types. The number of people involved often adds to the time required to process invoices, however. PYMNTS found that the process can take a week or longer to complete when five or more people are needed for approval. Such instances are rare, however, as just 10.8 percent of payments require more than five people to process invoice approvals.

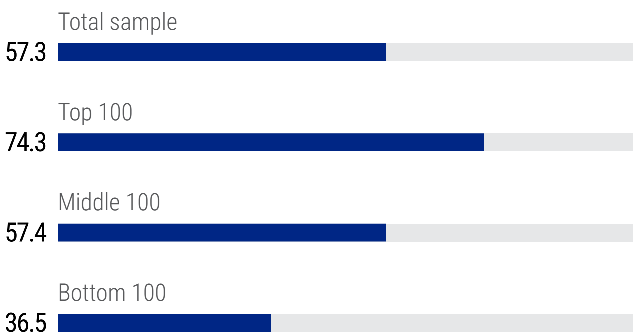
Many firms see electronic invoices (eInvoices) as potential AP friction solutions.

Those that invest in them do so because these solutions are fast, reduce the need for manual review and, most importantly, minimize the personnel needed to approve invoices before they are paid. In fact, 35.5 percent of firms reported they would implement eInvoicing to reduce the manual tasks involved in processing.

Understanding the Payables Friction Index

FIGURE 1:

How top, middle and bottom performers stack up
Top, middle and bottom 100 businesses' average index scores



The average index score of the sample's top 100 merchants was 74.3 **— well above the overall average.**

The Payables Friction Index score quantifies the issues businesses experience in processing supplier payments. Our team considered several factors when calculating each company's index score, including the onboarding steps involved in collecting suppliers' data, negotiating terms or relevant discounts, automation levels, receipt and approval processing, payment times and the number of professionals in their processes.

The average index score among our survey's firms was 57.3 out of 100, and scores varied widely between the 100 top-, middle- and bottom-performing companies. Top performers earned an average score of 74.3, middle performers were largely on par at 57.4 and bottom performers eared an average of just 36.5.

Firms are more likely to fall into the middle and upper-middle index score ranges, according to our research, with the highest share (29.3 percent) earning between 50 and 60 points and the second-highest (27.4 percent) in the 60-to-70-point range. A total of 29 percent fell

29.3%

of all merchants reported index scores **ranging from 50 to 60.**

into the lower brackets, which negatively influenced the final average.

Scores are based on how firms perform across five key AP operation categories — onboarding, receipt, approval, payment and overall — as well as several subcategories. Most performed well in "overall," or the number of people involved in the AP process, delivering an average score of 79 points. They had room for improvement in subcategories like the number of methods used (25.1 points), discount terms during onboarding (29.5) and AI usage (32.2), however.

FIGURE 2:

How top, middle and bottom performers stack up
Share of firms that earned select index score ranges

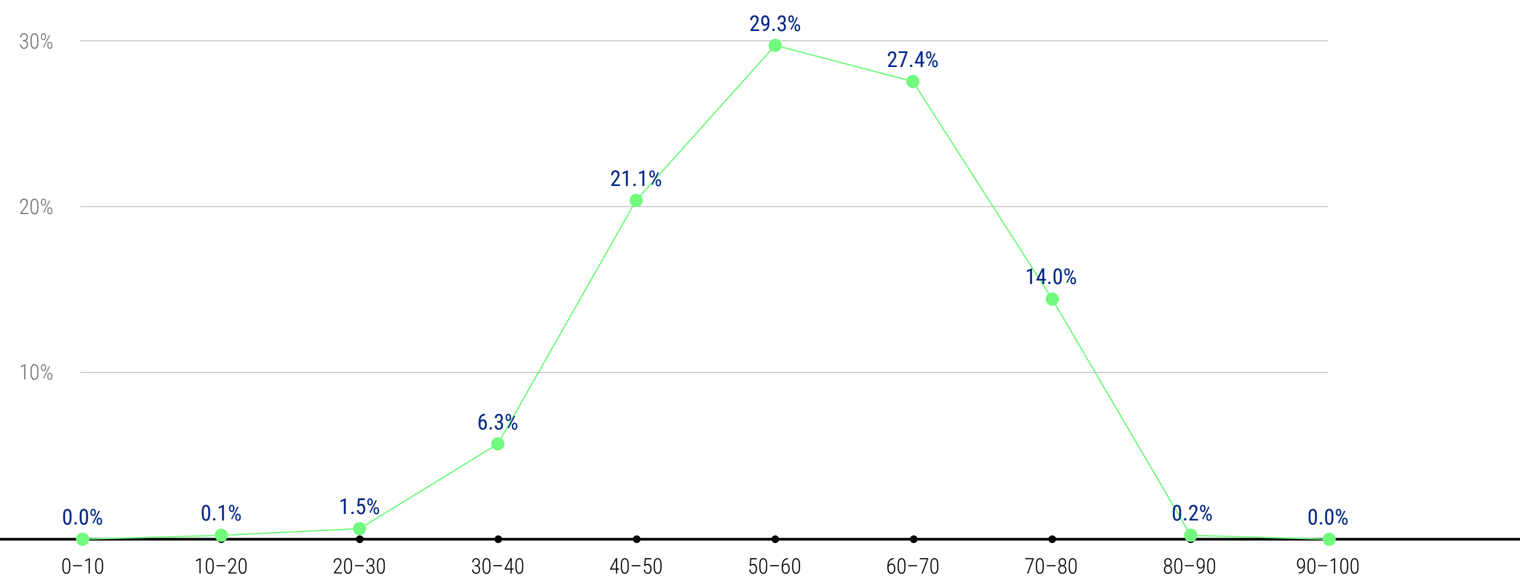
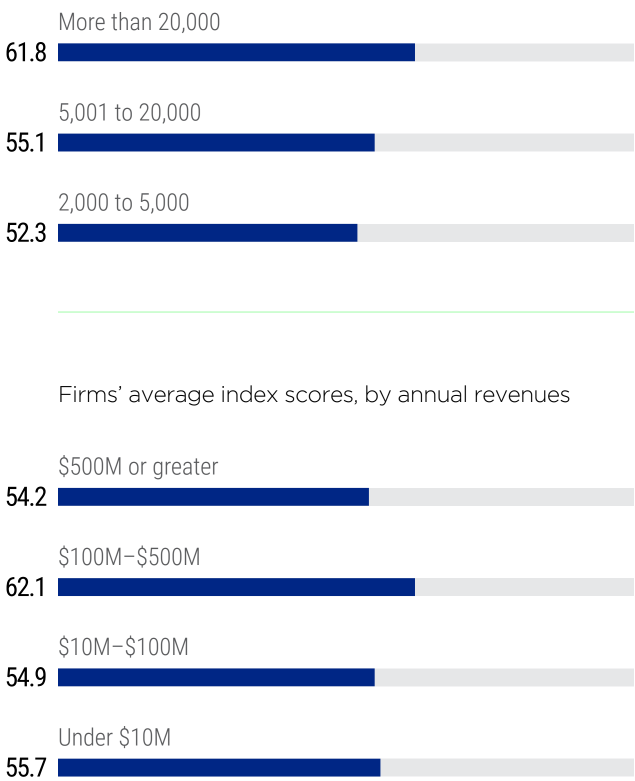


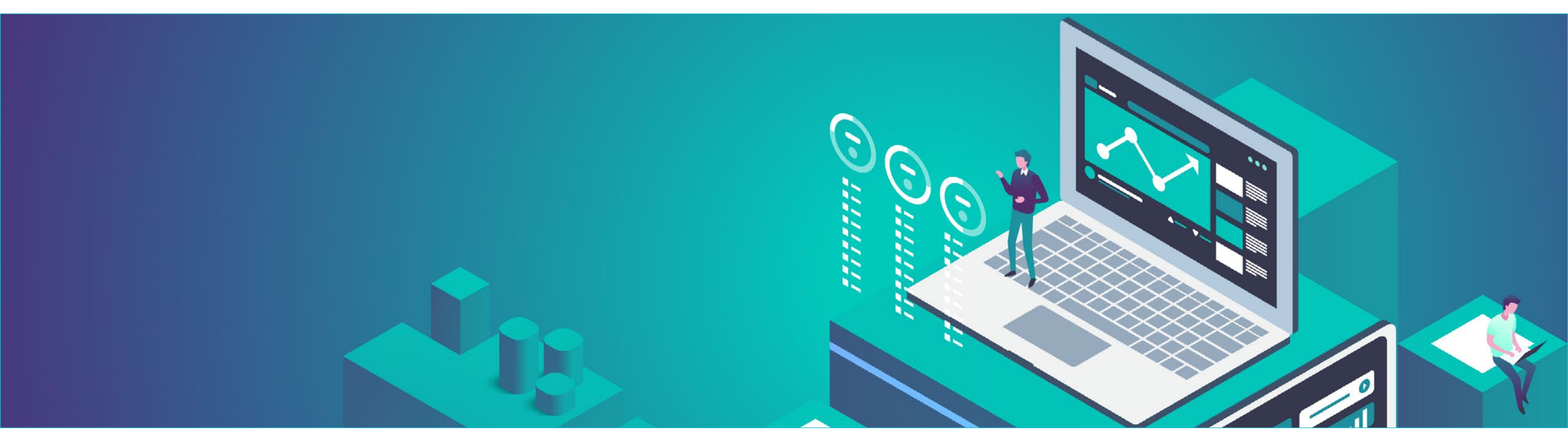
FIGURE 3:

How index scores vary
Firms' average index scores, by volumes processed per month



We noticed an interesting trend when we divided our sample based on monthly invoice processing volumes: The more invoices processed per month, the higher the firm's average index score. Those that processed 20,000 or more earned an average of 61.8 points, firms with between 5,001 and 20,000 invoices accrued 55.1 and those that processed between 2,000 and 5,000 earned an average of 52.3.

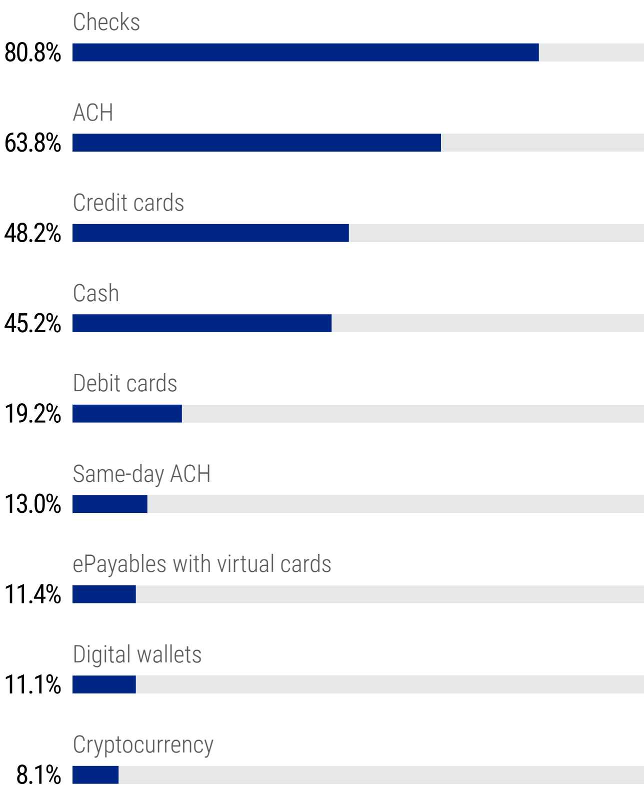
This is likely because the firms that receive the greatest volumes of invoices often have more established operations that deliver greater efficiencies. It appears that higher invoice volumes pressure firms to find efficient solutions on their own before they can adopt automated processes to assist with such activities.



The AP
satisfaction gap

FIGURE 4:

Different payment methods' popularity
Share of firms that used select methods to pay their suppliers



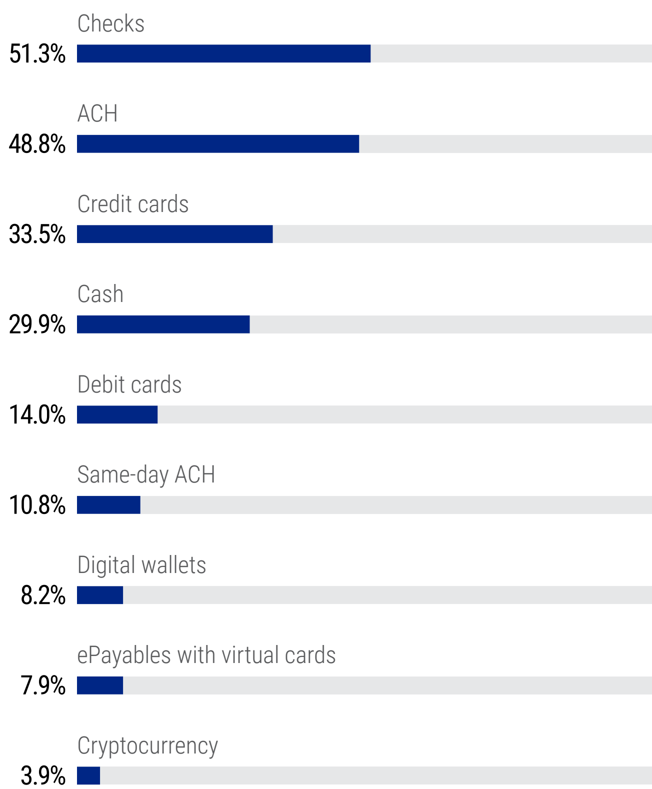
AP firms appear to have grown accustomed to certain supplier payment methods. This includes paper checks, the age-old staple of business-to-business (B2B) payments, yet these professionals may be willing to consider other options if overall satisfaction rates are any indication. PYMNTS found that 80.8 percent of firms still use paper checks to pay their invoices, and that they are far more likely to be used for at least one payment than are ACH, credit cards, cash, debit cards and other alternatives.

Paper checks may be the most commonly used, and are certainly familiar hallmarks of the AP profession, but AP professionals are losing their patience with the payment method. Of the firms in

ONLY 51.3% of firms expressed satisfaction with paper checks as a payment method, even though **80.8 percent use them to pay invoices.**

FIGURE 5:

Measuring firms' satisfaction with various payment methods
Share that reported being "very" or "extremely" satisfied, by method



our study, 51.3 percent expressed satisfaction with using paper checks — a rate considerably lower than the 80.8 percent that use them — indicating that professionals have a roughly 30-point satisfaction gap in their paper check usage.

In short, AP professionals are sticking with the methods they have — especially paper checks — though they are generally not satisfied with them. The question, then, is why?

Room to improve **payment satisfaction**

Firms are not always satisfied with their invoicing processes, and many have expressed dissatisfaction with legacy AP practices. This is often true even for those that believe their current systems are already efficient. This makes sense when we consider that paper checks, which take a long time to process and send, are still the status quo.

Because most firms still use them, it does not take much to make improvements here. The inefficiencies involved in these paper-based, manual processes are often exacerbated by the number of people involved, and more people typically equate to longer processes. On average, 42.3 percent of invoices are approved in between a day and a week. One-time, recurring, small and large payments are all more likely to be processed within a week than any other time frame.

Unsurprisingly, the more people involved in the approval process, the longer it takes. An average of nearly 45 percent of invoices take a week or longer to process

TABLE 1:

Time to approve invoices

Length of time required to process payments, by payment type

	AVERAGE	One-time payments	Recurring payments	Small payments	Large payments
One day	**29.4%**	25.9%	35.6%	37.7%	19.4%
Less than one week	**42.3%**	38.7%	38.2%	39.1%	51.0%
One week	**18.2%**	25.4%	16.6%	14.2%	17.6%
Two weeks	**6.6%**	6.4%	6.5%	5.8%	7.6%
One month	**2.9%**	3.0%	2.4%	2.6%	3.5%
More than one month	**0.7%**	0.6%	0.6%	0.7%	0.8%

TABLE 2:

How the number of AP professionals affects processing approval time
Length of invoice processing time, by number of people required

	NUMBER OF PEOPLE REQUIRED				
	5+ (N=335)	3–5 (N=926)	2 (N=1,041)	1 (N=746)	0 (N=68)
One day	26.9%	19.2%	26.7%	45.8%	39.7%
Less than one week	28.4%	42.9%	50.0%	38.3%	26.5%
One week	25.1%	22.6%	17.0%	12.3%	5.9%
Two weeks	9.6%	10.9%	4.6%	1.3%	22.1%
One month	8.4%	3.7%	1.2%	1.9%	4.4%
More than one month	1.8%	0.8%	0.5%	0.3%	1.5%

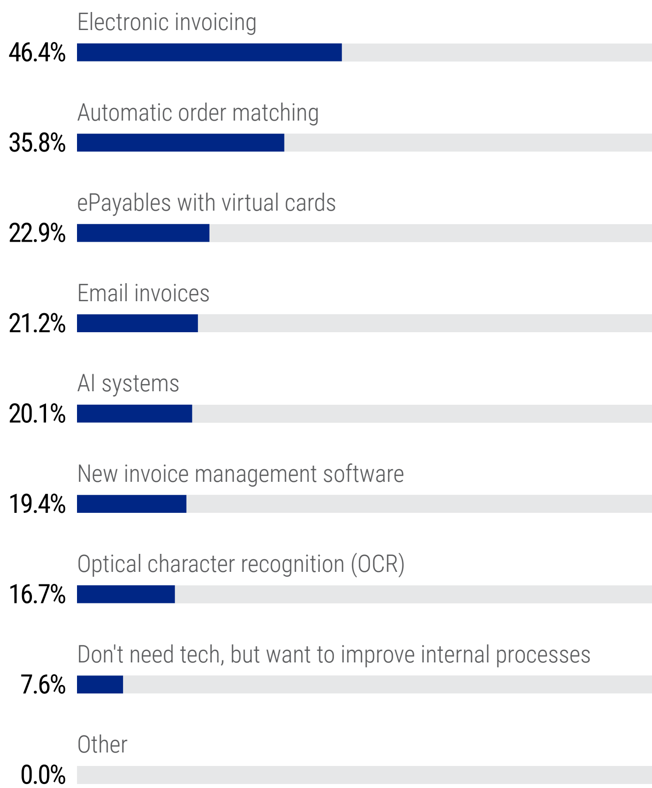
when five or more are required to approve, for example, while 55.3 percent are approved within one day to less than a week. When three to five people are involved, however, the rate of invoices approved in a week or longer falls to 37.9 percent, while 62.1 percent are approved between one day and less than a week. Interestingly, invoices requiring vice presidents' or directors' approvals can also mean the process takes longer.

Based on these findings, it appears AP departments may suffer from a "too many cooks" problem that adds friction to invoice payments. The fewer people involved, the faster said payments can be approved. The key to improving processing speeds could thus lie in automated solutions that reduce the people, physical paperwork and manual processes involved. eInvoices are already being used to ease these frictions.

eInvoices:
Solving the AP friction problem

FIGURE 6:

Firms' AP innovation priorities
Share that said they would like to implement select AP innovations



EInvoices could be solutions for firms dissatisfied with their current AP processes, as invoice data is electronically exchanged between buyers and sellers and automatically processed with the product. Solutions are already being put to use, as 42.6 percent of all firms said they receive eInvoices and 74.5 percent used them for processing.

Firms are largely interested in innovations that improve AP operations, but related time and costs could prove to be significant adoption barriers. Smaller firms, which tend to have fewer resources and be hesitant to invest in innovations, are the most likely to put off adoption for these reasons. These concerns could trap such firms in a state of limbo until they are ready to list AP solutions among their top innovation goals.

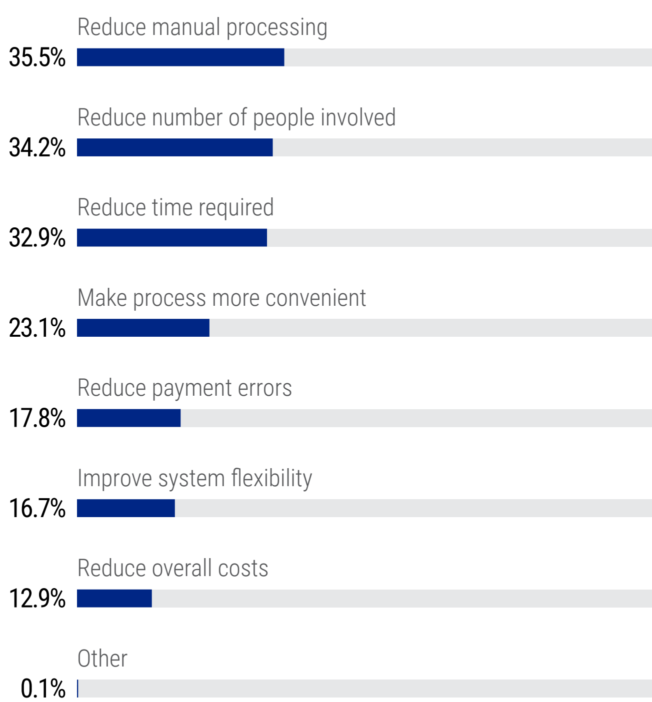
Many firms see eInvoicing solution adoption as an opportunity to improve their AP operations. As much as 46.4 percent considered implementation a top innovation priority, ahead of automatic order matching, ePayables with virtual cards and other innovations.

42.3%

of all invoice types took between **one day and one week to approve.**

FIGURE 7:

Why firms want to implement eInvoices
Share that cited select reasons for wanting to implement eInvoices



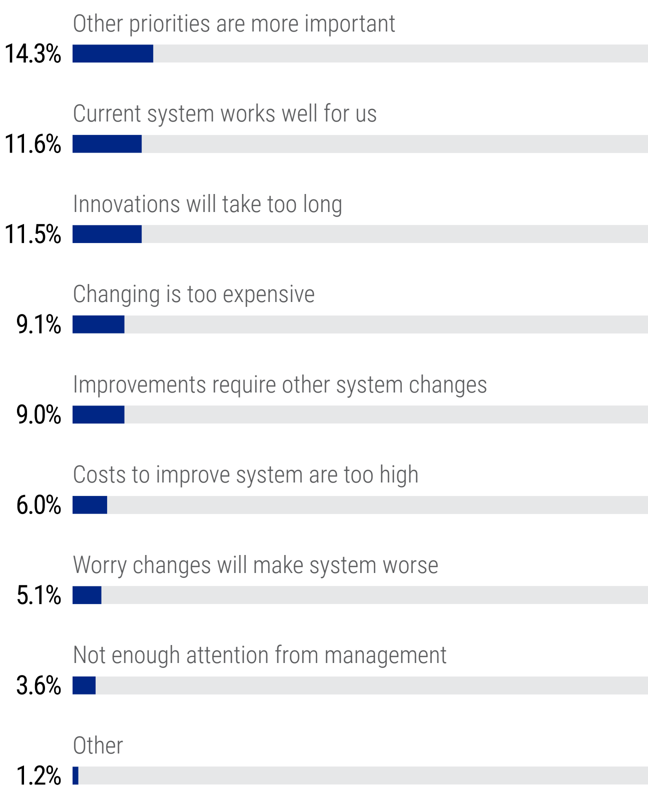
Firms see eInvoicing as a way to streamline AP operations by removing manual process frictions. The highest share (35.5 percent) would implement them to reduce manual processing, 34.2 percent would do so to minimize the number of people required and 32.9 percent wanted to reduce the time involved in AP processing.

Automation promises to achieve many of these goals, but firms do not appear to view it as a silver bullet. Instead, many seem to want to embrace it only after they have already developed and established smooth AP operations. Digitization — particularly eInvoices — is a compelling solution to the friction-laden AP status quo, but often an afterthought. As such, competing priorities can quickly become top innovation barriers.

Just 14.3 percent of firms choose not to pursue new solutions because they have other priorities they feel warrant greater investment, like public-facing innovations. Only 11.6 percent say their current systems work well for them, indicating interest in introducing AP innovations that will lead to more seamless operations.

FIGURE 8:

Firms' largest AP innovation deterrents
Share that cited select factors as deterrents to further AP innovation

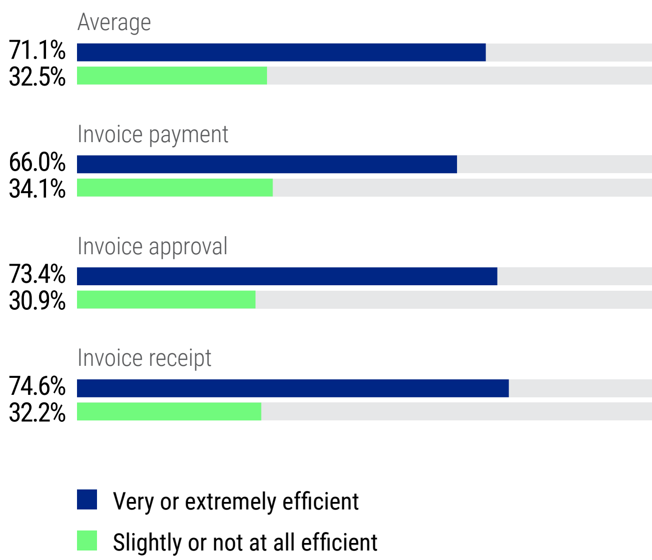


Companies are also deterred by cost and the time required to make AP innovations. We found that 11.5 percent of surveyed firms were concerned about how long it would take to make innovations, while 9.1 percent feared that the change would be too expensive.

AP's chicken-or-the-egg **dilemma**

FIGURE 9:

Firms' interest in implementing AP innovations
Share that expressed interest in AP innovation, by self-reported efficiency



14.3%
of firms said **other priorities are more important** than AP-focused innovations.

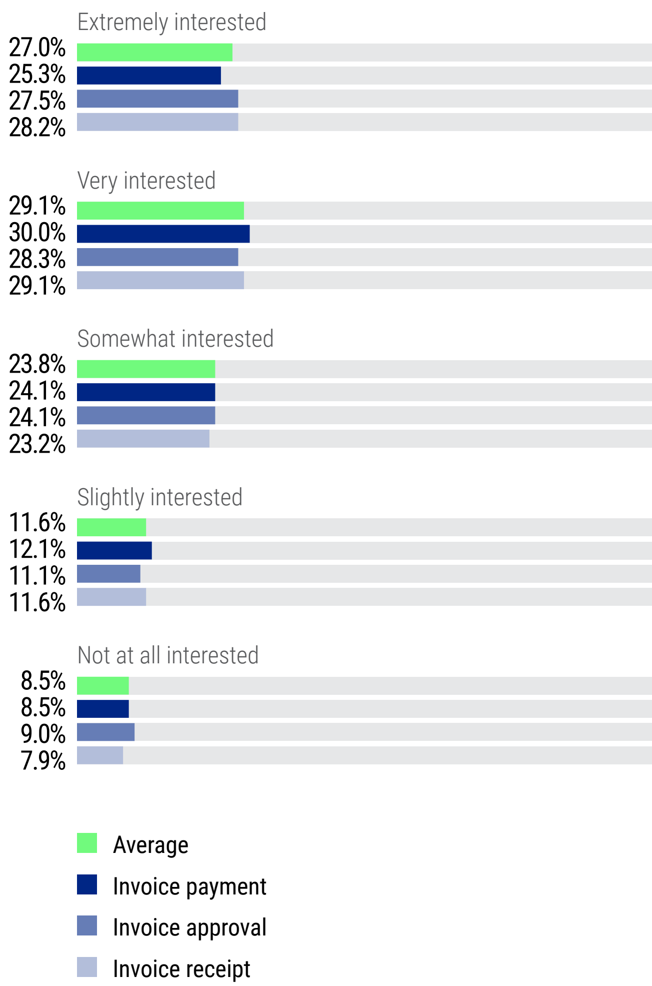
Most AP professionals agree that automation would be a welcome asset that helps their departments quickly process invoices and issue supplier payments. In other words, automation-focused innovations would help them more efficiently do their jobs.

A closer look at the data reveals a paradox, however: The firms most willing to embrace solutions to enhance operations already boast smooth operations. This indicates that businesses likely see innovation as a way to assist with existing processing operations, not as a first step in making AP more efficient. In fact, most respondents said their AP operations were already in strong shape, with an average of 71.1 percent having "very" or "extremely" efficient AP processes in place.

While firms with strong processing capabilities are eager to embrace innovations, 32.5 percent of those that reported "slightly" or "not at all" efficient processes said the same. A similar pattern can be seen among those with strong invoice receipt operations, as 74.6 percent

FIGURE 10:

Firms' interest in AP innovations
Share that reported interest in AP innovations, by level of interest



reporting "very" or "extremely" efficient ones are interested in innovation. Among the entire sample, this rate falls to 57.3 percent that are "very" or "extremely" interested in innovation.

It therefore appears that firms face chicken-or-the-egg quandaries when innovating their AP operations. Those that are most interested in embracing innovations have already developed and implemented efficient operations, and automated solutions are needed to enhance their efficiencies. Firms with inefficient operations appear less enthusiastic about the innovations designed to deliver the efficiencies they need, however.

This is the paradox of AP-focused innovations. Solutions like automation and optical character recognition (OCR) aim to improve invoice-related responsibilities, but firms are more likely to want to create their own efficient systems before turning to innovation. In other words, innovation is viewed only as an enhancement to AP operations.

DEEPDIVE

How higher-revenue firms are beating the pack

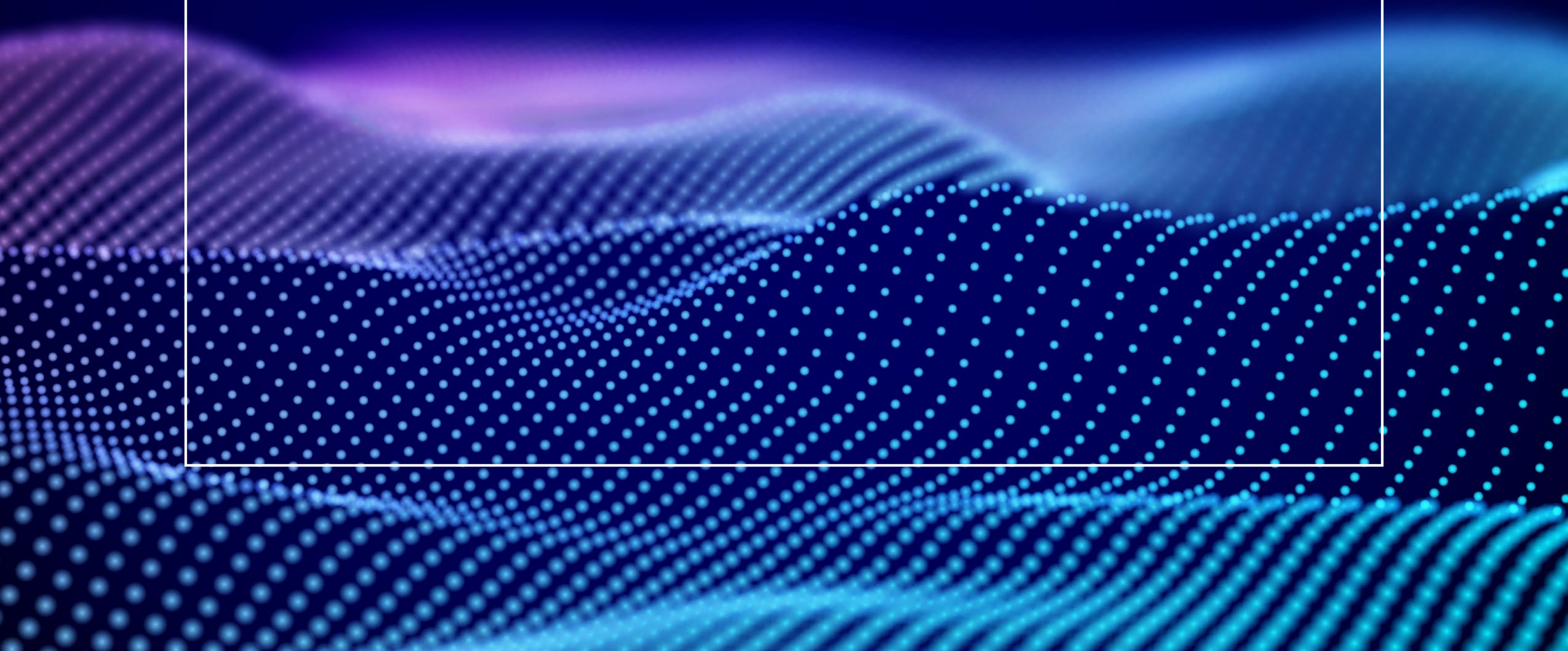
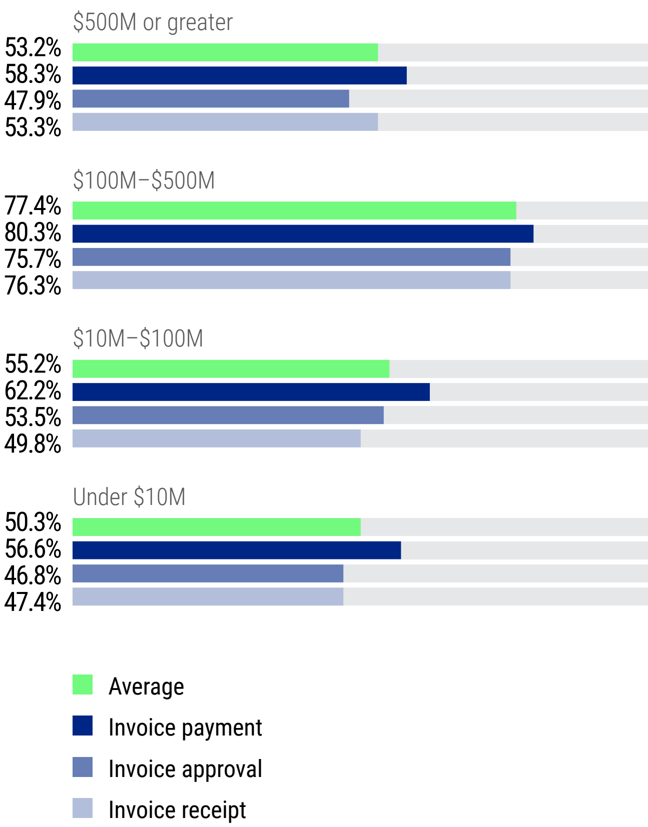


FIGURE 11:

Sample efficiency
How firms' incomes determine levels of efficiency, by annual revenue



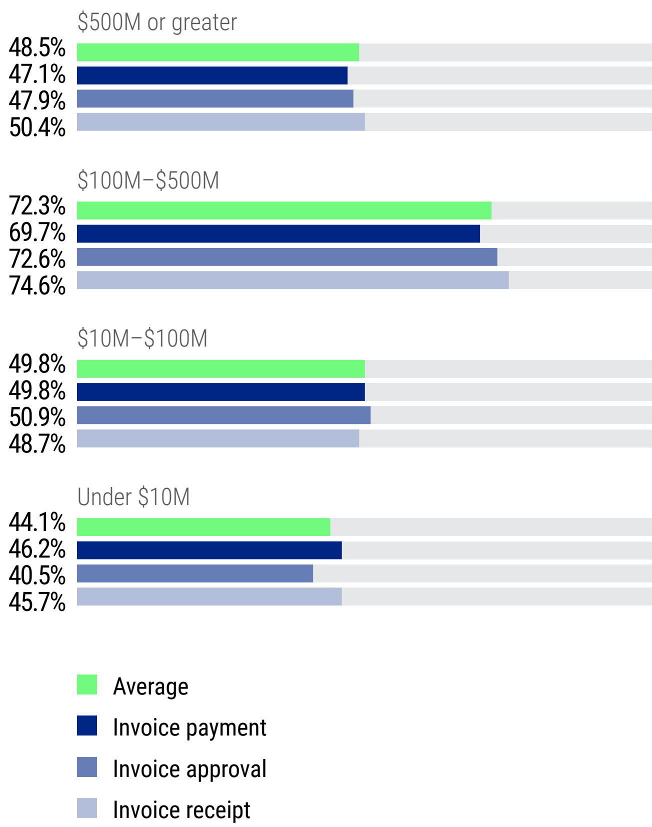
Some firms appear to be farther ahead on both the efficiency and innovation curves than their counterparts. The following Deep Dive explores how a particular revenue bloc is leading the innovation charge.

According to PYMNTS' research, those that generate between $100 million and $500 million in annual revenues are disproportionally ahead of other sample companies. On average, 77.4 percent of these firms are are highly efficient in invoice-specific tasks, and 72.3 percent are interested in innovation.

Sample companies earning $100 million to $500 million are considerably more likely to demonstrate efficiencies in invoice-related tasks, including payments, approval and receipt. Firms in this bracket are ahead of others in processing operation efficiency, too, with 80.3 percent saying they have "very" or "extremely" efficient invoice payments. That equates to 18.1 points between the next group, which earns $10 million to $100 million and sees 62.2 percent reporting the same.

FIGURE 12:

Innovation interest
Firms' interest in adopting invoice-related innovations, by annual revenue



Existing efficiencies are not the only area in which these firms are leading, though. They are also considerably more interested in innovations than other brackets. On average, 72.3 percent are interested, but fewer than half of all other firms said the same thing.

Based on these insights, it appears many firms view AP innovation as something to pursue after they have established their own invoice processing efficiencies. The more successful a company is at implementing invoice efficiencies, the more likely it is to pursue innovations that can help support those efficiencies. Firms in the $100 million-to-$500 million bracket appear to be leading the competition on both fronts.

A company's size likely plays a role in its innovation interest. More than 20 percent of smaller firms earning below $10 million per year reported other priorities that dissuaded them from AP innovations. They were also more likely to be satisfied with their existing systems, and to be deterred by the cost and time required to implement innovations.

Volume is also key to why firms in the $100 million to $500 million income range are ahead of their competition: Their high number of invoices means they can no longer rely on manual processes. In fact, 50.7 percent of those that process more than 20,000 per month are in this income bracket — a higher share than seen in any other group.

These firms are also much more likely to embrace OCR, eInvoice solutions and other AP innovations that streamline the process. According to our survey, 72.9 percent of those

TABLE 3:

Annual revenue breakdown
Innovation deterrents and invoice volume correlations with revenue

	ANNUAL REVENUE			
	$500M or greater	$100M–$500M	$10M–$100M	Under $10M
FACTORS DETERRING FIRMS FROM INNOVATION EFFORTS				
Other priorities are more important	12.0%	5.4%	22.2%	**23.1%**
Current system already works well	16.1%	4.6%	13.5%	16.8%
Innovations will take too long	8.3%	6.6%	17.1%	17.3%
Changing is too expensive	11.2%	4.6%	10.2%	13.9%
Improvements require other system changes	9.9%	4.6%	12.7%	11.0%
Costs to improve system are too high	8.3%	2.9%	8.4%	5.2%
Worry changes will make system worse	3.7%	2.6%	7.3%	8.7%
Not enough attention from management	4.5%	2.6%	4.4%	2.9%
Other	2.5%	0.6%	0.4%	1.7%
INVOICE VOLUME				
More than 20,000	29.6%	**50.7%**	14.4%	**5.3%**
5,001 to 20,000	20.2%	25.2%	36.2%	18.4%
2,000 to 5,000	16.0%	14.9%	35.1%	34.0%

earning $100 million to $500 million in revenue use OCR to process their invoices — a usage rate considerably higher than that of other groups — while 85.1 percent report being more likely to embrace eInvoices. Interest in the latter is also high among companies in the other revenue ranges, but that in AI appears to be lagging.

In other words, the more successful the firm, the more likely it is to shift away from manual processes. Those in the $100 million to $500 million range are much more likely to require invoice-related work than companies with lower incomes, for example, and to realize that automation-based solutions can help maintain their income threshold.

A firm's growth appears to be directly related to its interest in innovation, based on our findings, and those that have crossed into $100 million-to-$500 million in earnings are in expansion mode. They now understand that manual tasks are no longer suitable for their current invoice volumes, and that solutions like OCR and eInvoicing will be needed to ensure smooth invoice processing in the future.

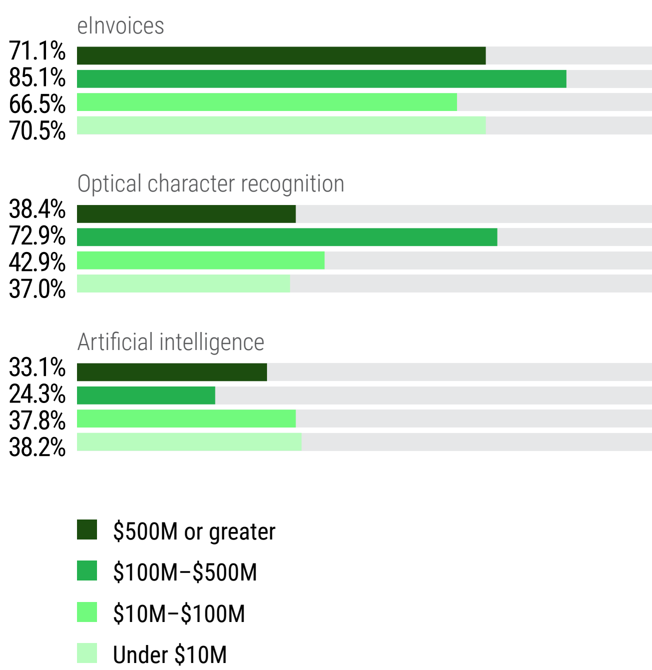
50.7%

of firms that process **more than 20,000 invoices per month** earn between $100M and $500M.

FIGURE 13:

How firms process invoices

Solutions to assist firms with invoice processing, by annual revenue



CONCLUSION

Inefficient AP processes include more than just paperwork and processing headaches: They can cause harm to firms' reputations if too many issues develop, and payment delays could hurt suppliers' bottom lines or sour business partnerships.

Minimizing invoice process steps is among firms' top priorities, however. Automation can ease many of these frictions — including reducing manual tasks and the number of people required to approve each invoice — but firms are more likely to see innovation as supplementary to their current efficiencies rather than a radical operations change.

This means many will first focus on establishing how they want their AP operations to run before turning to innovation to automate such procedures. Smaller firms will be particularly wary of investing in changes that may require time and financial resources to implement, and will want to focus on creating smooth AP processes before seeking innovations that enhance them.

PAYABLES FRICTION INDEX

Methodology

The Payables Friction Index was designed to gauge the frictions associated with account payables processes and assess how businesses can make invoice processing smoother and faster. The index measures friction on a scale of 0 to 100, with lower scores denoting higher degrees of payments friction and higher scores indicating more seamless accounts payable processes.

The index is based on our survey of executives at 2,570 firms. We asked them questions related to three accounts payable stages: invoice receipt, invoice approval and invoice payment. A total of 1,253 responses were disqualified, and 245 of the remaining 1,317 responses were partially completed. This left us with 1,072 completed responses.

About 70.2 percent of our survey respondents worked in accounting, and 62.9 percent worked in accounts payable. About 26.4 percent of qualified respondents worked for firms that generate between $100 million and $250 million in revenue annually. Overall, 31.4 percent worked for firms that receive more than 50,000 invoices monthly, while another 25.2 percent processed between 2,000 to 5,000 invoices per month.

ABOUT

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PYMNTS.com is where the best minds and the best content meet on the web to learn about "What's Next" in payments and commerce. Our interactive platform is reinventing the way companies in payments share relevant information about the initiatives that make news and shape the future of this dynamic sector. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovations at the cutting edge of this new world.

corcentric

Corcentric is a leading provider of procurement and finance solutions that transform how companies purchase, pay and get paid. Corcentric's procurement, accounts payable and accounts receivable solutions empower companies to spend smarter, optimize cash flows and drive profitability. Corcentric was named a 2019 "50 Providers to Know" by Spend Matters and a leader in IDC MarketScape: Worldwide SaaS and Cloud-Enabled Accounts Payable Automation 2019. Since 1996, more than 6,000 customers from the middle market to the Fortune 1000 have used Corcentric to reduce costs and improve working capital.

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