Top KPIs to track when automating Accounts Payable inside D365

When looking to automate Accounts Payable one of the key considerations is the capability to measure your success. Not only is this key to understanding how well your automation process implementation is going, but it is also vital to building your business case moving forward as well as understanding where you should focus your automation efforts to minimize process bottlenecks.

Automating you AP process can provide you with the all the data you need to track your AP efficiency. It will enable you to measure progress towards your long-term goals as well as provides deep insight into your process specific KPIs. In recent research by Ardent Partners, implementing AP Automation is highlighted as one of the key priorities for 2020, but it is important to note that it's the key enabler for 4 out of 5 of the other priorities[1].

Top priorities for AP in 2020[1]
AP Automation is the key enabler

Improve AP reporting and data analytics	48%
Eliminate paper invoices and reduce manual tasks	38%
Enable suppliers to submit invoices electronically	32%
Implement AP Automation	29%
Eliminate paper check payments	28%
Reduce processing costs	27%
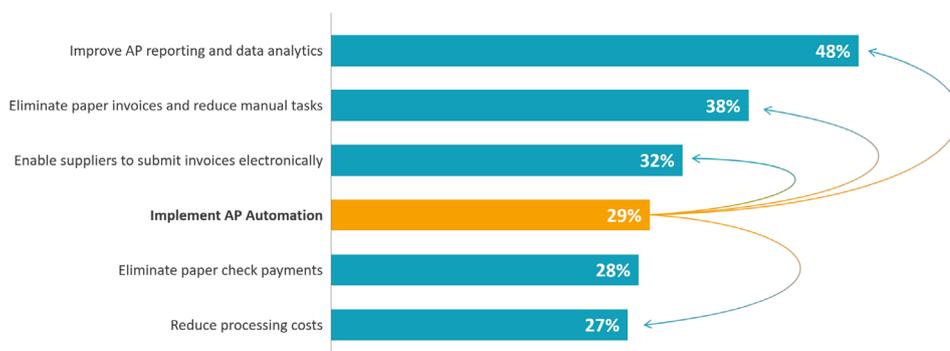
1. Ardent Partners – The State of ePayables 2020

Automating AP digitizes the invoice process providing the foundation for solid reporting and follow-up capabilities – which is the top priority for AP in 2020 according to the research. Automating AP by default minimizes manual labor, and the digital and automated process eliminates paper in your organization. AP automation also minimizes the hurdles for suppliers to move to submitting invoices electronically – whether it be using e-invoicing, e-mailing PDFs or leveraging EDI solutions. Suppliers can continue to use the invoice format of their choice, yet the data captured to be digitally processed in the AP solution. Finally, automation also lowers the processing costs. Building a business case for the ROI of automating the invoice process is quite simple and for most organizations automating AP is a truly low hanging fruit in the value it brings through transforming the organization towards a more modern and digitized operation.
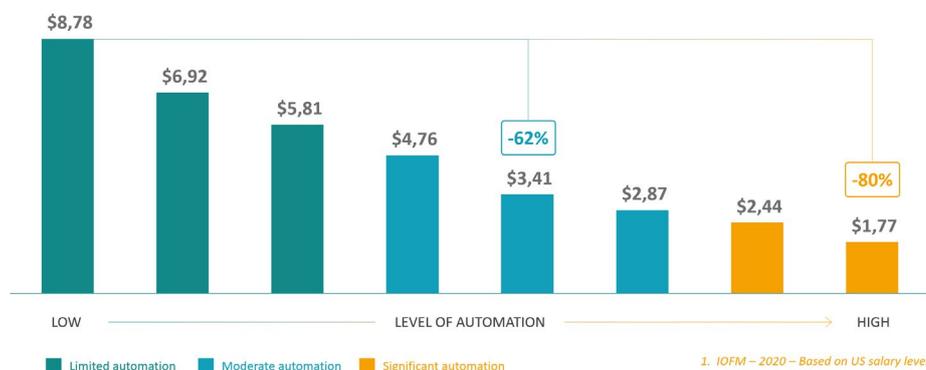
When tracking the progress of your AP automation initiatives, there are five key KPIs that need to be part of the analytics dashboard *(but of course there are many more that may be relevant to specific organizations)*.

1. **Cost per invoice**
2. **Invoice approval turnaround**
3. **Invoices processed per Accounts Payable FTE**
4. **Invoice exception rate and rate of invoices processed automatically by AP**
5. **Straight-through or touchless processing of invoices**

1. Cost per invoice

Cost per invoice can be as complicated or as simple as you make it – variance in benchmarks are most likely dependent on how the process costs are calculated. The most simplistic model divides the cost of AP staff by the number of invoices processed per year. One of the benchmarks that are often used comes from IOFM (Institute of Finance and Management) who continuously poll their members[2] *(Ardent Partners also do this as part of their long running State of ePayables series)*.

Cost per invoice and level of automation[1]

Chart bars: $8,78 / $6,92 / $5,81 / $4,76 / $3,41 (-62%) / $2,87 / $2,44 / $1,77 (-80%)

LOW ——————— LEVEL OF AUTOMATION ——————→ HIGH

■ Limited automation   ■ Moderate automation   ■ Significant automation

1. IOFM – 2020 – Based on US salary levels

The interesting aspect of the Cost per Invoice KPI is that it is tricky to benchmark against, so as a benchmark it should be used with care – keep it internal to track process improvement, benchmark the percentual improvement over time. Benchmark your progress against the percent delta between the manual *(low performers)* and the fully automated *(high performers)*. Looking at figures from multiple research reports all indicate the same difference – high performers are approximately 80% more efficient than laggards.

Most likely a business case will start to make sense at a moderate automation level. And just as in an ERP implementation project – do not expect full effect at once. Grow into the AP Automation solution. Add progress automation over time and see this as a marathon, it is not a sprint race where you can sit back and relax after an initial implementation.

2. Invoice approval turnaround

Tracking invoice approval turnaround time is easier – but ensure that it includes the end-to-end process – the time it takes for the organization to receive, process, approve and set an invoice ready for payment in the ERP solution. It is key to measure the entire process – as bottlenecks need to be identified throughout the process which includes invoice data capture, import and validation, matching or manual approval, exceptions management and final review.

Tracking the invoice approval time will give an indication of how efficient the AP process is and how automation can slim down processing time. Automation also eliminates many manual process steps increasing accuracy.

3. Invoices processed per FTP

This is the flip side of the cost per invoice KPI, although it may vary from organization to organization, it's a significant indicator of productivity. Again, it is not something that is recommended to use as an external benchmark, but rather an internal KPI that tracks the progress of the automation initiative.

2020 figures from IOFM indicate that there is ample room for improvement for all organizations – as in the case for cost per invoice, the delta is the key indicator and is the best metric for setting a goal to track your KPI against.

Number of invoice per FTE and level of automation[1]

1. Annual number of invoices processed
IOFM – Institute of Finance & Management – 2020
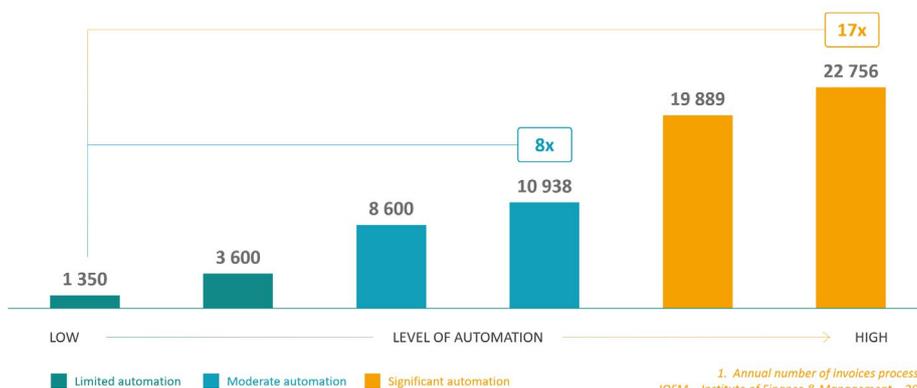
4. Invoice exception rate and AP invoice automation

Invoice exception rate is the percentage of invoices that need manual attention due to various reasons and thus cannot be processed automatically. The flipside of this KPI is the percentage of invoices that could be processed automatically.

Monitoring and drilling into this KPI enables AP organization to provide insights that can improve supplier relations as well as identifies bottle necks at the supplier level.

Automating both invoice matching as well as distribution for manual approval speeds up the AP process. By also automating coding for expense invoices that are manually approved AP Automation also increases accuracy and minimizes the risk of manual errors. This is also key to minimizing AP involvement downstream in the approval process.

5. Straight-through processing of invoices

The final KPI that organizations need to keep track of is the percentage of invoices that are processed straight-through without any manual intervention – the degree of invoices that are fully automated from invoice entry *(data capture)* to the invoice being ready for final posting in the ERP.

This KPI can also be named touchless processing, which causes some confusion as there are an array of different interpretations of the concept. Some argue that straight-through and touchless are in relation to the invoice not needing to be touched by AP, but that KPI is best monitored using invoice exception rate or the number of invoices that are matched or routed automatically. Straight-through invoice processing should measure the number of invoices that require no manual interaction in any stage of the AP process.

By Automating the AP process inside D365 organizations can start to track any number of KPIs. Omitting any of the above prevents the organization from leveraging many of the publicly available benchmarks. Which in turn limits the setting of credible and attainable goals, almost defaulting the purpose of tracking the KPI in the first place. There's truth in the saying *"What you can't measure, you can't manage"* – understanding not only the KPIs that you need to keep track of as well as setting goals allow you to use the metrics to determine your position in the automation journey. It also allows you to identify the areas where you can improve over time.

ABOUT EXFLOW AND SIGNUP SOFTWARE

ExFlow is a built-in, feature-rich AP Invoice Automation solution developed specifically for Microsoft Dynamics. ExFlow enables organizations to increase efficiency, transparency, and control in their AP Invoice process, driving down costs while generating substantial process savings. More than 900 customers processing more than 40 million invoices annually rely on ExFlow to empower their AP Invoice Process across the globe.

SignUp Software was founded in 1999 and launched ExFlow in 2003. Fueled by an entrepreneurial mindset, SignUp Software is a global forerunner of financial process automation inside Microsoft Dynamics 365. SignUp currently operates out of Stockholm, Sweden (HQ), Denmark, Finland and Australia and count approximately 80 employees across the globe.

1. *Ardent Partners – State of ePayables 2020*
2. *Institute of Finance and Management – AP Automation KPIs 2020*