

Metrics Matter:

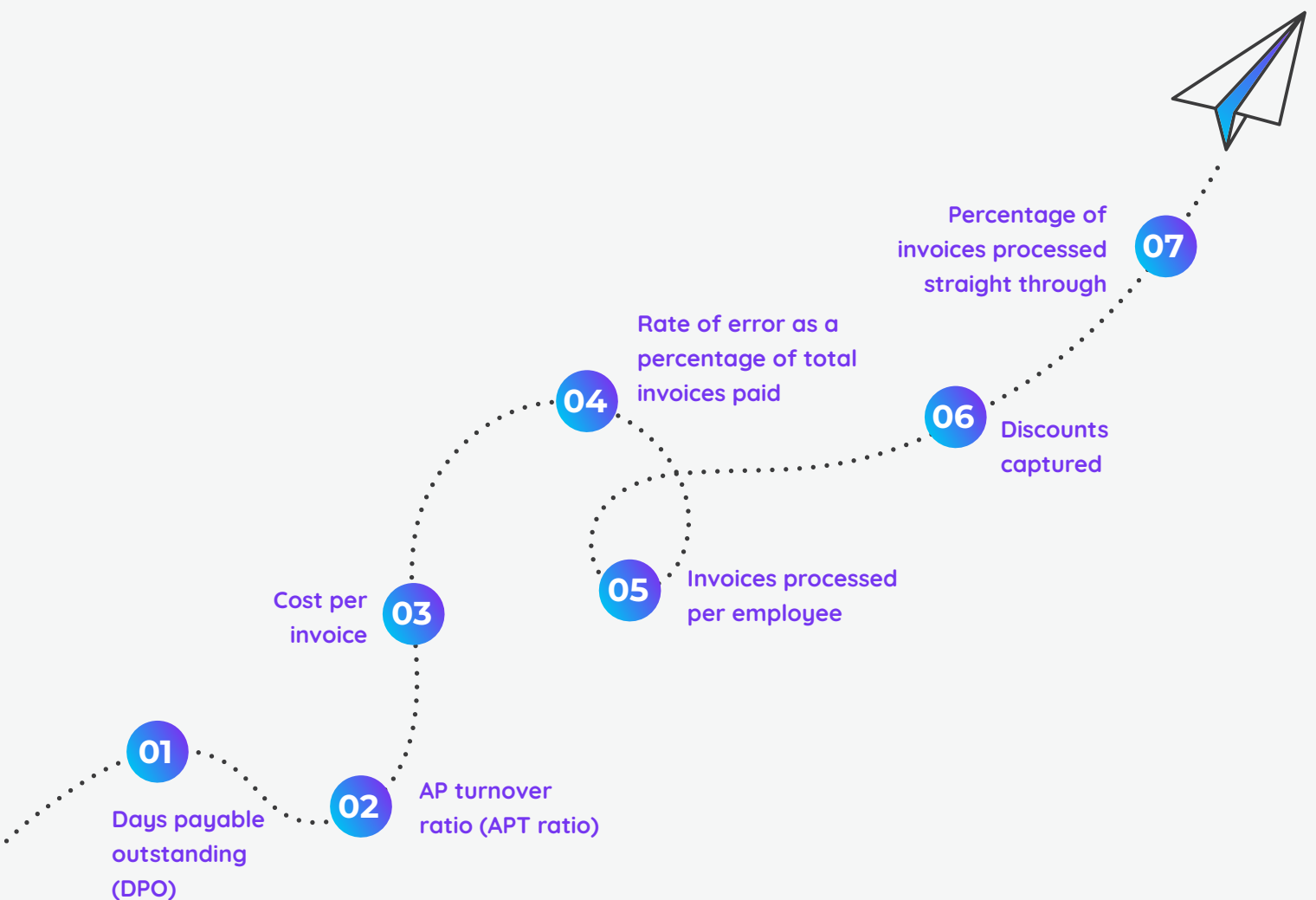
7 KPIs to Streamline Your AP Process

quadi⁷ent
accounts payable
by Beanworks

Metrics show you where your AP process is performing well and where there are bottlenecks that may impact cash flow management. When you know exactly how to calculate and interpret your data, you can use this information to identify and fix the root causes of challenges you're facing.

To gain that valuable insight, you need to study the right metrics. But when it comes to AP, you're up against a deluge of data, and it can be difficult to determine where your efforts are best spent.

This toolkit shares seven essential key performance indicators (KPIs) that, when optimized, have a significant positive impact on your AP efficiency. You'll discover what they tell you, how to calculate them, and the steps you should take to improve them.



Days payable outstanding (DPO)

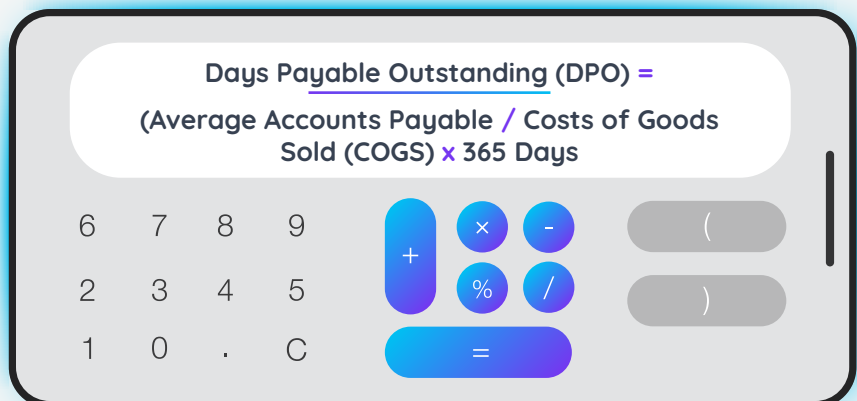
Days payable outstanding (DPO) – the average number of days it takes your business to pay its invoices from trade creditors.

WHY IT'S HELPFUL

- The metric is used in cash cycle analysis, which provides you with an overview of how many days your organization's cash will be tied up. This, in turn, impacts your AP team's planning when it comes to optimizing payment schedules.
- It is important to get the most use out of your cash, holding onto it as long as possible while not incurring late fees or penalties. Understanding your DPO helps you identify if you are getting the maximum advantage from your cash.
- DPO can help indicate inefficient AP practices, such as poorly defined approval workflows, manual data entry, or reliance on paper-based invoices.
- Optimizing DPO can help you to maintain positive vendor relations which can provide leverage when negotiating for better terms and discounts.

HOW TO CALCULATE

To determine your DPO, use the following equation:

$$\text{Days Payable Outstanding (DPO)} = \left(\frac{\text{Average Accounts Payable}}{\text{Costs of Goods Sold (COGS)}} \right) \times 365 \text{ Days}$$


What is a good DPO?

A high DPO is considered positive because it indicates that your company is getting maximum usage out of your cash. However, it can also suggest that your organization is having trouble meeting its commitments on time. That's why it's important to compare this metric to benchmarks within your industry to see if it is higher or lower than the average.

TIPS TO IMPROVE IT

To optimize your DPO, you can do the following:



Review terms against industry data – Study how quickly other companies within your industry are making payments. If you're paying faster than similar businesses, you may be putting yourself at a disadvantage in terms of cash flow.



Negotiate payment terms - Work with your suppliers to achieve more favorable payment terms. This can include extending due dates or negotiating for early payment discounts.



Eliminate manual processes – When approvals, payments, tracking, and other essential AP processes are handled manually, they lead to bottlenecks that often result in late payments and missed discounts. Automation streamlines the process by eliminating manual data entry, establishing clear approval workflows, and providing transparency, so that you can better manage AP end-to-end.



Review invoices – Study invoices to detect errors, discrepancies, or duplicates. This will help you monitor spending and manage budgeting.

AP turnover ratio (APT Ratio)

AP turnover ratio – the rate at which your company pays its suppliers and creditors who have extended a trade line of credit.

WHY IT'S HELPFUL

- The ratio provides you with a snapshot of your cash flow management and provides insight into your organization's liquidity.
- It helps you to identify and eliminate bottlenecks in the payment process, ensuring payments are delivered promptly and favorable vendor terms can be established.
- By comparing it to other companies' ratios within your industry, you gain a sense of how your AP management compares. If you are consistently paying earlier or later than your competition, you may need to adjust your payment process to ensure you are getting the best use out of your cash.
- The ratio plays a factor in financial risk assessment, as a low number may raise concerns for investors and lenders.

HOW TO CALCULATE

To calculate your AP turnover ratio, use this formula:

Accounts Payable Turnover Ratio Formula =

APT Ratio = (Total net credit purchases from suppliers during the period / Average Accounts Payable balance for the period)

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TIPS TO IMPROVE IT

Optimizing your APT ratio will not only improve your vendor relationships. It will boost your liquidity and streamline cash flow management. Here's what you should be doing to improve the metric:



Audit your company's cash flow management and attempt to identify process bottlenecks that are increasing your DPO.



Analyze your accounts receivable turnover ratio to see if collections delays are leading to an inability to pay your creditors promptly.



Negotiate to improve your credit terms with vendors.



Measure the cost of goods sold and assess where improvements can be made.

Want to see how much money you could save by eliminating manual processes and adopting AP automation?

Check out our ROI Calculator!

DOWNLOAD NOW!

Cost per invoice

Cost per invoice – the average amount it costs your business to process a single invoice.

WHY IT'S HELPFUL

- It helps you to identify wasteful spending — such as labor costs for activities like manual data entry or processing costs for paper checks.
- It can help you identify inefficiencies in your AP, such as a dependency on paper-based processes and payments.

HOW TO CALCULATE

To determine your cost per invoice, you'll use the following formula:

Total number of invoices paid for a given period
/ all costs incurred to pay invoices

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TIPS TO IMPROVE IT

Eliminate check payments – One of the simplest ways to reduce your invoicing costs is to eliminate the use of paper checks. Paper checks are slow to process and susceptible to fraud. This can lead to missed deadlines and lost revenue.

Eliminate manual tasks – Manual data entry, time spent chasing down approvals, and other manual tasks in the payables process take up unnecessary time and increase costs. In addition, they risk your team getting bogged down in busy work, keeping them from taking a strategic approach to your payments.

Rate of error as a percentage of total invoices paid

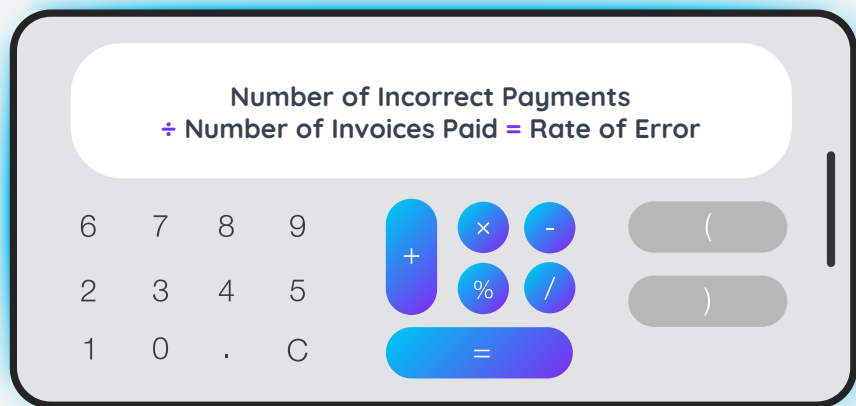
As the name suggests, this metric measures the number of erroneous payments your organization makes over a given period.

WHY IT'S HELPFUL

- Erroneous payments, duplicate payments, and overpayments can deplete your organization's cash flow. This metric allows you to identify when and where errors are occurring so that the causes can be corrected, reducing wasteful spending.

HOW TO CALCULATE

To find your error percentage, you'll calculate using:



TIPS TO IMPROVE IT



Introduce internal controls – Obligation controls — such as three-way matching — verify that you are paying invoices you are responsible for. Data entry controls — such as field checks, sign checks, and limit checks — establish a data entry process and rules, ensuring consistency. Payment controls help eliminate the potential of duplicate payments or fraudulent payments by separating duties so that the person making the payment and the person approving a payment are different.



Use three-way matching – This process matches a purchase order, invoice, and a shipping or receiving document to ensure that they align. This can be managed manually by matching documents or through an AP automation system that matches the documents for you.



Maintain an audit trail – Ensure that all stages of the AP process are fully transparent, including vendor review, purchase order approval, delivery receipt, invoice approval, and payment. The simplest method of achieving this is to adopt a software solution that tracks all actions taken on an invoice, such as modifications or corrections, approvals, and payment.



Integrate your systems – When solutions like your AP software and ERP do not integrate, your team must engage in manual data entry which can result in data entry errors. Integration eliminates this concern by ensuring that the systems share data without the need for manual intervention.

Invoices processed per employee

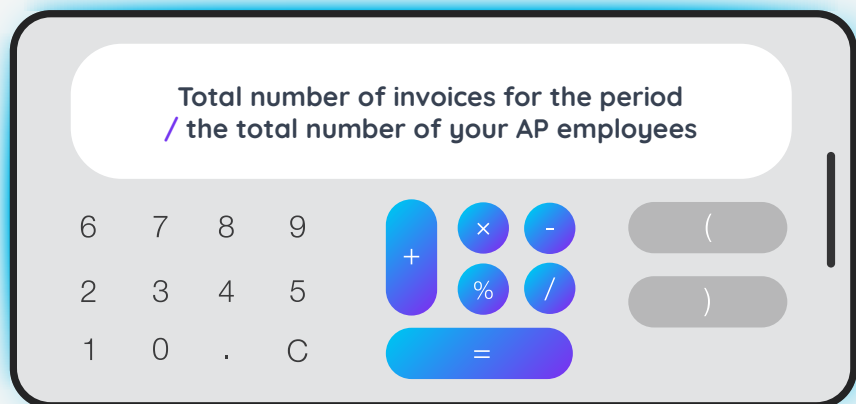
Another valuable metric for your team to monitor is the total number of invoices each employee processes over a given period, be it daily, weekly, monthly, or quarterly.

WHY IT'S HELPFUL

- This metric reveals how productive individual team members are and your team's overall productivity.
- A low result can help you to identify potential staffing issues, process inefficiencies, or the need for further training.

HOW TO CALCULATE

To determine this number, you'll simply calculate:



TIPS TO IMPROVE IT



Utilize AI and OCR – AI-powered features like Optical Character Recognition (OCR) eliminate manual data entry and increase your team's efficiency. Data is immediately captured from invoices and imported into your system, eliminating the risk of errors.



Establish approval workflows – Informal approval processes can lead your team to waste time chasing down approvals. By creating a formal approval workflow, you ensure greater efficiency. This can be simplified further through automation, which sends invoices directly to approvers and provides regular reminders until an invoice is paid.



Integrate systems – AP employees spend significant time on data entry due to disconnected systems that do not communicate. This is compounded further if your team relies on paper invoices and filing. Moving to electronic processes and systems that integrate will reduce this work and increase team efficiency.



The
%
can indicate the efficacy of your current cash flow management.

Discounts captured

Discounts captured – The percentage of available discounts that you were able to successfully capture in a given period.

WHY IT'S HELPFUL

- Missed discounts are often the result of inefficient AP practices, such as slow approvals. By identifying how often your organization fails to capture discounts, this metric can help you to detect these inefficiencies.
- Regularly capturing early discounts benefits your vendor, improving your relationship and providing you with leverage when it comes to negotiating terms.
- The percentage can indicate the efficacy of your current cash flow management.

HOW TO CALCULATE

Use the following equation to calculate your percentage of discounts captured:

(Total number of discounts captured over a period
/ Total number of invoices eligible for discounts
in the period) x 100

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TIPS TO IMPROVE IT



Align AP and Procurement – Regular communication between your AP and procurement teams is key to define common goals and collaboratively track progress. Your teams can and should coordinate discount negotiations and spend analytics.



Eliminate manual processes – By eliminating manual processes — like data capture — you and other members of the AP team are freed up to take a more strategic approach to your payments, ensuring that discounts are not left unclaimed.



Automate – Any process that can be automated, such as three-way matching or the approval process, frees up time to identify potential discounts and ensure that the terms of your Service Level Agreements (SLAs) are being met so that you have no wasted spend.



%↑

A higher percentage of straight through invoices will

improve

vendor relationships and provide leverage when negotiating rates, terms, and discounts.



Percentage of invoices processed straight through

Straight through processing – When an invoice is received, approved, and paid without exceptions or delays

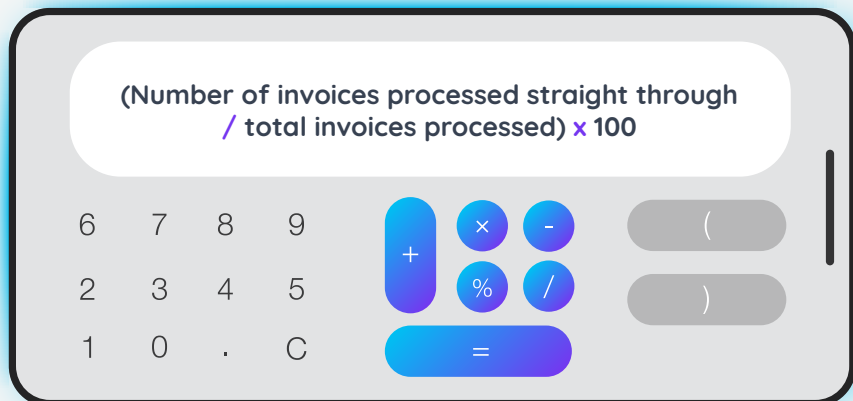
WHY IT'S HELPFUL

- Straight through invoices are cheaper to process than exceptions. By helping you identify invoices that require manual intervention, you can take steps to improve AP efficiency.
- A higher percentage of straight through invoices will improve vendor relationships and provide leverage when negotiating rates, terms, and discounts.

HOW TO CALCULATE

To determine your straight through percentage, use the following formula:

(Number of invoices processed straight through / total invoices processed) x 100



TIPS TO IMPROVE IT



Eliminate manual data entry – A simple keystroke error can lead to an invoice exception, increasing the amount of time it takes for an invoice to be approved and paid. Automation helps eliminate 83% of manual data entry.



Embrace AI – Tools like OCR help eliminate data entry errors by directly capturing invoice information. AI scans invoices for duplicates and irregularities, helping eliminate the chance for mistakes.



Establish approval workflows – Create a strict system for invoice approvals so that approvals don't have to be chased down, invoices are not lost or forgotten about, and approval is expedited. Automation can aid this.



Invoice cycle time

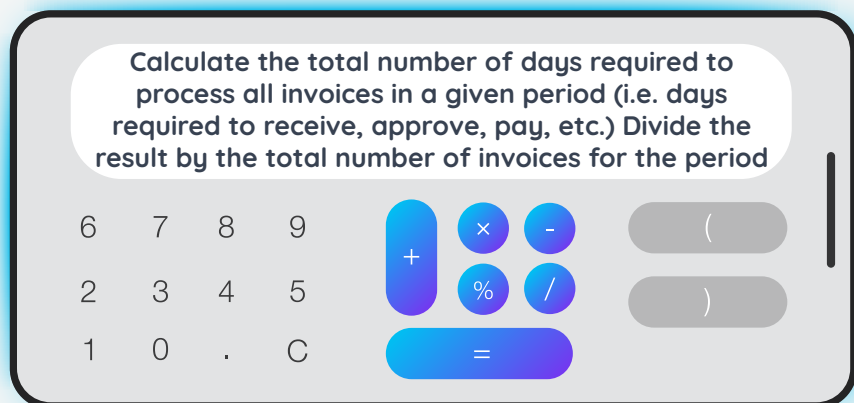
Invoice cycle time – the amount of time it takes between the receipt of your invoice and when payment is dispersed.

WHY IT'S HELPFUL

- It helps determine how members of the AP team spend their day by identifying how long each step of the invoice cycle — such as data entry or approval — takes. This allows you to see which steps of the AP process are running efficiently and which need attention.
- By optimizing your invoice cycle time, you improve the likelihood of capturing early payment discounts and improve vendor relationships.

HOW TO CALCULATE

To determine your average invoice cycle time:



TIPS TO IMPROVE IT



Store documents digitally – Not only is searching through paper documents time-consuming, but these are susceptible to loss which can lead to payment delays.



Automate processes – By automating processes like data entry and approvals, you are freed up to focus on capturing discounts, planning the optimal time to pay invoices, and negotiating better rates.

A man with a beard and grey hair, wearing a dark blue suit jacket over a white shirt, is smiling and looking down at a laptop. He is sitting at a desk in an office setting. The background is slightly blurred, showing office lights and structures.

How AP automation improves KPIs and streamlines your purchase-to-pay process

While there are numerous steps that you can take to improve your KPIs, the single most efficient way to improve them is to invest in AP automation software.

- AP automation software frequently makes use of AI and OCR technology. This eliminates the need to manually capture invoice data. Invoice numbers and line items are automatically imported with 99% accuracy. The AI scans your system for potential duplicate invoices, while checking for irregularities that may indicate fraud. It integrates with your ERP and other back-office software, reducing manual tasks and increasing the amount of time you have to strategically approach cash flow management.
- Invoices are automatically routed to the appropriate team member for approval. Regular reminders are sent until an invoice is approved and sent for payment. Because the system is customizable, you can set up approval matrices that require multiple approvals for invoices over a certain dollar amount, and separate duties so that the employee granting approval is not the same as the person issuing payment. This reduces your exposure to potential fraud.
- Comprehensive reporting and customizable dashboards provide you with data of your choice, so that you track the KPIs that matter most to your business. The reporting capabilities provide full transparency into the AP process, simplifying audits and helping you identify any potential bottlenecks.

To discover how Quadient AP can help you optimize your metrics and streamline your purchase-to-pay process, schedule a demo today!

Contact us today!



Save Time, Cut Costs & Reduce Risk With AP Automation

Quadiant Accounts Payable Automation by Beanworks is an essential all-in-one cloud-based accounts payable automation solution for the world's accounting teams. Our platform drives efficiency and productivity for busy AP teams. Quadiant supports hundreds of thousands of customers worldwide in their quest to create relevant, personalized connections and achieve customer experience excellence.

Let's talk about automation.

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