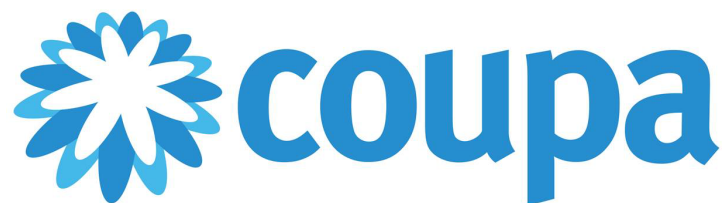




ePayables 2015:

Higher Ground

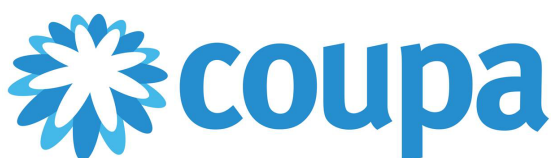
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ePayables 2015: Higher Ground

The realm of accounts payable (“AP”) is changing, shifting into new and exciting arenas. No longer a simple back-office function, AP groups are now well-positioned to become true “hubs” of visibility and intelligence, extending the value created within AP more broadly across both the enterprise and supply chain. In 2015, more AP groups are accelerating their plans to transform their operations and scale to new heights by pursuing the critical attributes that can propel an operation to the next level of performance or “higher ground.” The journey to AP excellence begins with a single step

and maximizing efficiency opportunities is generally the first one taken. Ardent Partners research has shown that transforming the modern accounts payable function via the removal of paper invoices from the AP process helps improve the effectiveness of invoice receipt, workflow, and payment-related processes and can drive down costs significantly. But, once an AP department is operating efficiently, what must it do to ascend to higher ground? What more can be derived from accounts payable that can transform it into a true center of business excellence? This report

answers these questions as it presents a comprehensive, industry-wide view into what is happening in the world of AP and captures the experience, performance, perspective, and intentions of 175 leaders from accounts payable and financial operations. The report also includes benchmarks, recommendations, and analysis that AP teams can use to better understand the state of accounts payable today, gain insight into best practices, benchmark their performance against the Best-in-Class, and ultimately improve their operations and performance.

REPORT OVERVIEW

This independent research report seeks to present a comprehensive, industry-wide view into what is happening in the world of accounts payable (AP) today by drawing on the experience, performance, and perspective of 175 AP, finance, and other professionals. The report is organized into the following chapters:

Chapter One – The State of AP: This chapter looks at the continuing evolution of the role of the accounts payable function and its level of engagement and alignment within the enterprise today as well as the motivations and internal and external drivers that shape AP leaders' priorities and plans this year and beyond.

Chapter Two – The State of ePayables: This chapter offers an assessment of the extent to which accounts payable organizations are leveraging ePayables (AP automation) solutions to improve performance while also detailing the different areas within the enterprise that see and feel AP's impact.

Chapter Three – AP Performance: This chapter provides accounts payable performance and operational benchmark statistics and a profile of Best-in-Class performers and their distinguishing characteristics and strategies.

Chapter Four – Strategies for Success: This chapter presents a series of recommended strategies and approaches for finance and accounts payable leaders and their departments who are seeking to improve their operations and their results.

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The State of Accounts Payable

Many enterprise leaders understand that in order to drive business growth and operate on a higher ground, they must ascend a path that is paved with transformative, innovative, and effective strategies. For the accounts payable function, this path requires a major shift in thinking to derive true business value from AP processes ... and a dynamic approach to get that famed next level of results.

Albert Einstein once said that leaders should not be people “of success,” but rather people “of value.” This notion rings true for today’s leaders of the accounts payable (“AP”) function. While there is inherent worth in the transactional efficiencies gained from improving key AP processes (invoice receipt, workflow, etc.), the true value of the AP function is rarely realized in the scope of today’s fast-changing business world. As more and more competitive advantages are sought in a shifting, global landscape, enterprise executives must view the accounts payable organization as not merely an opportunity for short-term efficiencies, but one that can consistently supply intelligence, insights, and value in support of enterprise goals, objectives, and initiatives. The “state” of accounts payable today follows a simple rule: transform the AP function, pursue innovation, and drive dynamic value to the greater enterprise. For AP leaders and professionals, there is one question that must always be top-of-mind: “How can we ascend to higher ground?” What are the capabilities, tools, technologies, and strategies that can move the accounts payable group into the realm of Best-in-Class? As businesses seek evolutionary advantages in a highly-competitive landscape, accounts payable can become a prime area of real enterprise value.



The Next Level: What Will It Take?

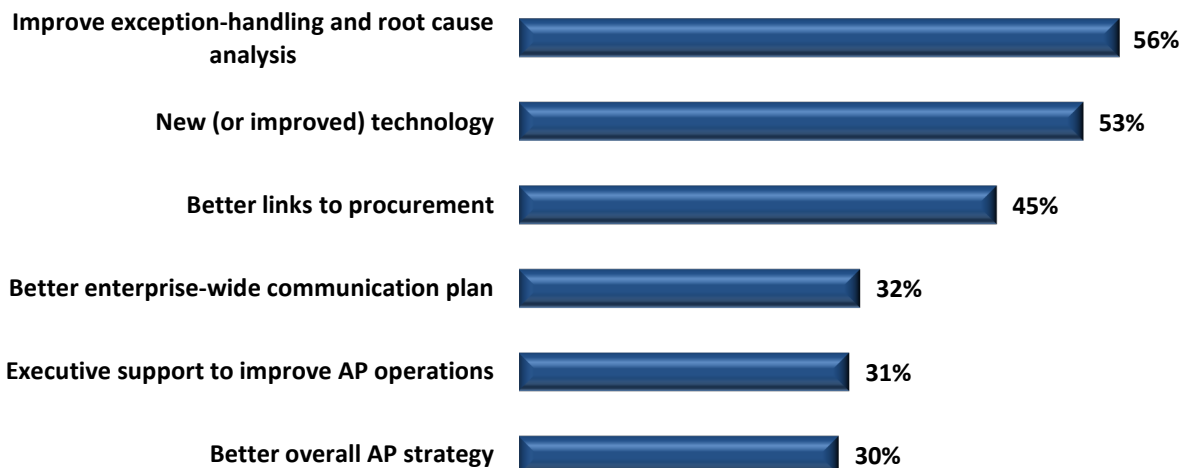
Any business leader understands that most, if not all, business functions have the capability to ascend to higher ground. Nonetheless, no enterprise has successfully cultivated an environment in which every process and function runs in an “excellent” manner. Process improvement and transformation is, of course, universally desired; attaining it, however, frequently becomes a question of resource allocation (when and how much can be

invested?) and project execution (are the strategies and solutions well deployed and successful?). And while *efficiency* is frequently the main focus of an AP transformation, the reality is that there should also be a focus on *value*. The good news is that while many AP departments have huge opportunities to improve efficiencies, they are also ready to climb to higher, more strategic ground.

Ascending to Higher Ground

While an ability to transform any business function is directly tied to resources and strategy, when it comes to the top strategies to help AP ascend to the next level of performance, AP and finance leaders believe that improving exception handling and root cause analysis as well as better automation and more collaboration with procurement (see *Figure 1*) form the foundation of AP's transformation into a hub of value and intelligence.

Figure 1: What Will It Take to Take AP to the “Next Level” of Performance?



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Exceptions are the scourge of every accounts payable department. The AP “machine” is built to become well-oiled and truly holistic. Any incidents or hiccups in invoice-processing not only delay payments to suppliers, they also create significant gaps in the real-time data that AP can provide to functional partners and the executive suite for critical planning, budgeting, and forecasting. Non-matching information, inaccurate invoice header data, and specific invoice line exceptions are all issues that plague even the most effective accounts payable team. A majority (56%) of AP professionals believe that enhancements within this arena will help push AP to the next level of performance.

Collaboration is a strategy that can deliver significant benefits to organizations of all sizes, industries, and regions. When internal business functions and stakeholders work together towards common business goals, they are more apt to share information, data, and insights regarding different processes and initiatives. In the world of AP, collaboration is regularly sought and frequently embraced. AP's partnership with the procurement department continues to advance and thrive but is still clearly seen as a huge opportunity by 45% of all groups. Spend visibility is highly prized by procurement departments because it can unlock significant savings opportunities for the enterprise and AP systems are frequently the best source for the spend data.

Technology is the link between these "next level" generators. With new and improved systems of automation across the full AP process, an AP operation is better able to overcome its exception-handling challenge, facilitate communication and collaboration with key constituents like procurement, and ultimately be viewed as a center of excellence and/or a great source of intelligence and value.

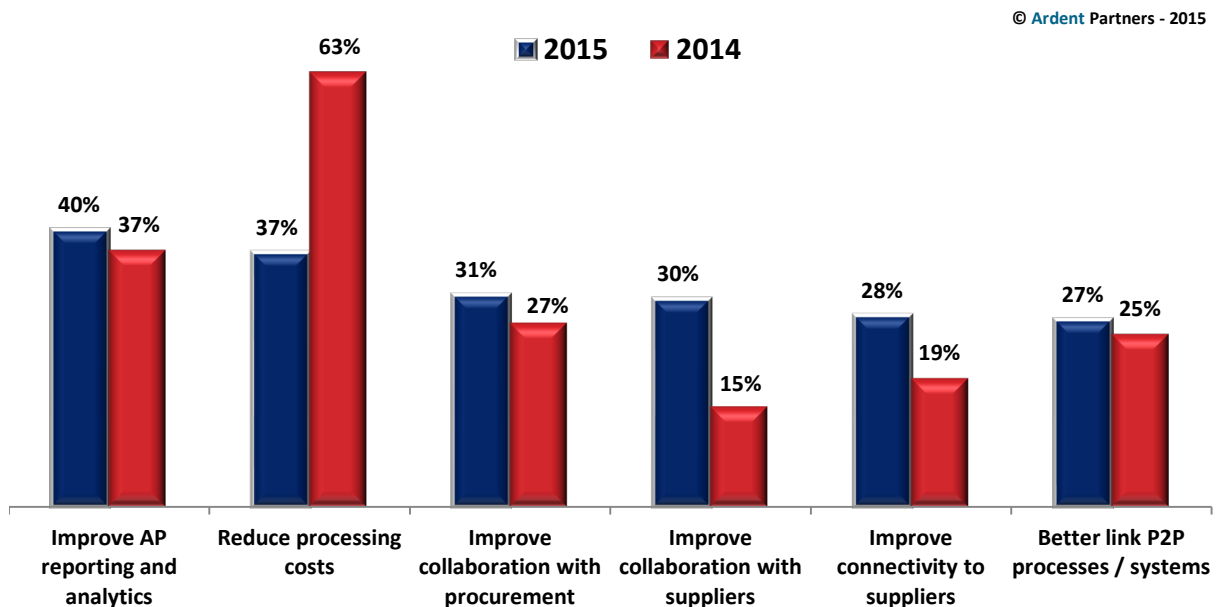
The Great Shift: Intelligence as a Top Priority

As discussed earlier, AP transformation initiatives generally start with the notion of efficiency: identify problem areas, allocate resources, and apply solutions. And to date, this has been the right focus because the paper-laden invoice process, a burden for most financial professionals, was and is an easy target for simple automation to reduce invoice processing costs.

While chasing after pure efficiency is a fine goal (albeit a traditional one), the time has come to define a broader, more strategic objective for the accounts payable function. This shift starts with AP leaders, who in 2015 are prioritizing AP analytics and the role of data and intelligence (*see Figure 2 below*) in a sharp shift away from the cost reduction focus of years past.

For years, the blight of accounts payable boiled down to one critical aspect: the abundance of paper. Paper-based invoices and paper-based check payments are costly and take longer to process than electronic or digitized invoices. The additional funds spent on processing paper invoices is what kept AP in a traditional back-office role; without some strategic value linked to the function, AP was often overlooked when it came time to set budgets for new technologies and talent.

Figure 2: Top AP Priorities in 2015



While the reduction of processing costs remains a top priority for organizations today (as long as paper is prevalent, this will remain a top priority), in 2015, AP leaders are more focused on the value of reporting and analytics around the accounts payable function. Why has this become a priority for today's AP and finance professionals?

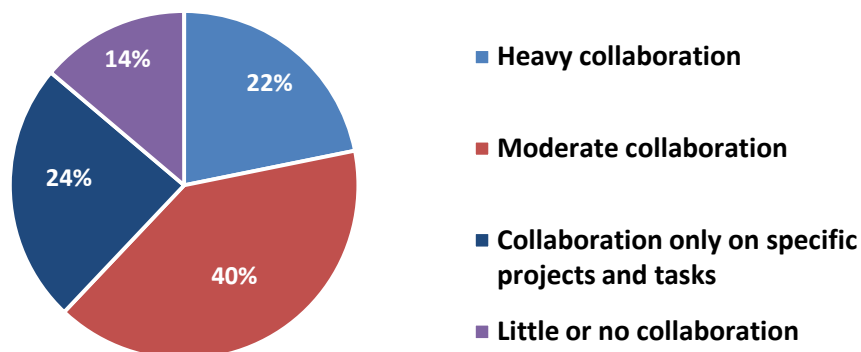
- Spend and supplier-specific data, all held within invoices and related documents, can be leveraged in uncovering spend trends and patterns and arming the sourcing team with deep information for future supplier negotiations.
- Invoices are often the “eyes” to the financial soul of the average business. The CFO and other C-level executives can use AP data to paint a vivid picture of corporate financial health.
- AP data can also be leveraged to formulate the value of early payment discounts, and how well-positioned the enterprise is to take advantage of those discounts.
- This shift in priorities also includes more focus on collaboration and electronic connections to suppliers and procurement. What happens in AP no longer stays in AP, the opportunity to extend value beyond AP's doors is now understood. As accounts payable departments move to “higher ground,” the foundation of the function will be built with true intelligence that can transform AP into a true center of business value.

Working Together: The Evolving Role of Collaboration

Beyond the prioritization of data / intelligence and cost reductions, today's AP and finance executives are also focused on improving collaboration, both internally and externally. In regards to supplier collaboration, it has become important for businesses to understand the value in treating suppliers as "partners," pushing for better long-term relationships instead of the quick "deal." By building connectivity and trust, the enterprise will benefit from improved supplier relationships over a period of years as the business continues to change and as it becomes increasingly important to find more value and innovation in the supply chain.

Regarding internal collaboration, it is no secret that the prime form of cross-functional coordination comes in the form of accounts payable working directly with the procurement group. Figure 3 below shows the level of AP-procurement collaboration that exists in the market today. Whether or not they are strong partners, procurement and accounts payable each manage one part of a larger single process (or transaction). Where it exists, collaboration between the two groups tends to follow the path dictated by an enterprise's procure-to-pay (P2P) processes and systems.

Figure 3: Collaboration Between AP and Procurement



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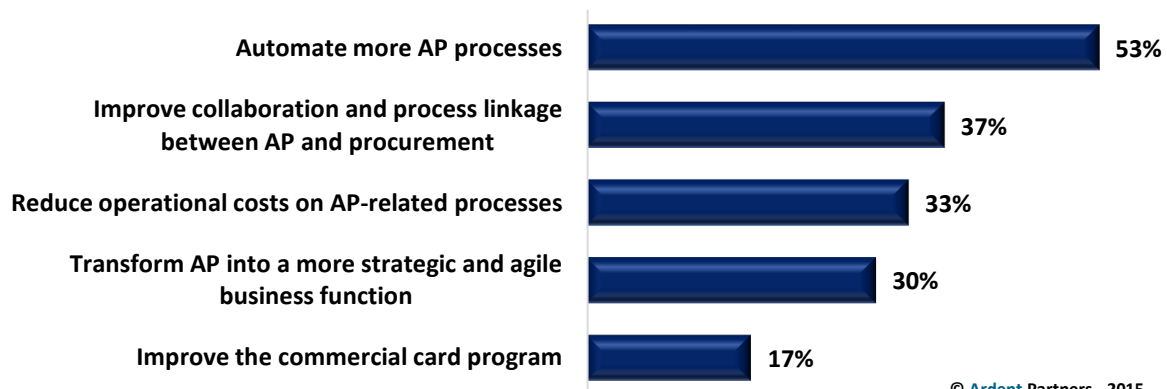
The businesses that cultivate an environment of collaboration *beyond* P2P processes are the ones that find the most value between the procurement and AP linkage. Currently, only 22% of all AP departments report that they have a strong link with procurement. Although 40% of companies are currently instituting moderately-collaborative endeavors between the two functions, the fact that 38% offer only task-based collaboration or none at all presents a stark picture of the linkage between procurement and AP across the industry.

Closing the procurement and AP loop with automation extends the value of all earlier investments by increasing efficiencies, accuracy, and visibility, and results in benefits that can include more savings and better compliance and cash management. Procurement and finance executives that have working unions are able to provide their stakeholders with intelligence into corporate spending (beyond what the CPO can provide) that can be leveraged for long-term planning, forecasting, and budgeting. The data shared between procurement and AP can be transformed into intelligence that will be relied on by the greater executive board to make educated business decisions.

AP 2017: The Path Ahead

The accounts payable function sits in a prime position to become a central “hub” of excellence, insights, and intelligence for the average enterprise. Finance professionals that either own or comprise the AP function should always be looking ahead. As Figure 4 highlights, businesses are turning to automation (53%) and collaboration (37%) as the foundational components of their future programs.

Figure 4: Goals for Today’s AP Organizations (next 24 months)



As the accounts payable unit navigates new, more strategic business territory, it must develop capabilities that can take the function to a higher ground. Technology is a core component of this forward-thinking notion, as AP automation helps create scalable, repeatable, linked, and more-efficient processes that can drive down costs, improve the overall “speed” of invoice and payment processing and enable back-end reporting that can be used to improve operations and results within AP and the larger enterprise. As the years pass, Ardent expects that AP technology will become more seamless and more accessible to

those enterprises that did not previously have the resources, aptitude, or budget needed to deploy it. In an age of global commerce, connectivity between buyers and suppliers that is enabled by technology will be a critical piece of the global business networks and supply chains that unify the world's enterprises.

Collaboration is another strategy that will help take the AP function into the future. With an eye towards improving cross-functional collaboration and process / system linkage between the accounts payable unit and other key stakeholders, today's enterprises will be able to leverage a foundation of unified communication and insights that allow for and enable real-time decision-making. As the AP function continues on its strategic path, its true value will continue to be realized as a centralized hub of corporate intelligence.

The State of ePayables

While AP departments have typically lagged other functional areas in their use of automation to streamline processes and enable more broad-based changes, leading AP groups have been able to make the case for an investment in ePayables solutions and establish a competitive advantage. This chapter looks at the various solutions that automate some or all of the AP process.

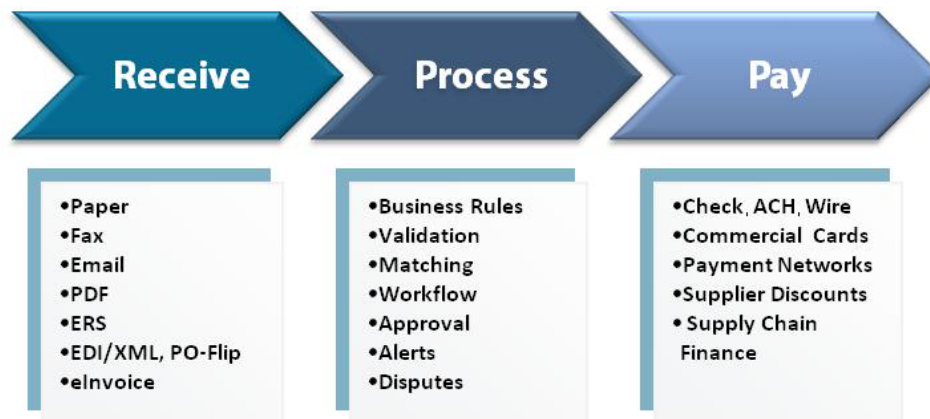
The current state of ePayables reflects a rising prominence of the accounts payable department. More enterprises than ever are taking a hard look at their internal business functions, like accounts payable, and beginning to consider how to improve and streamline operations. This is a positive step for the proliferation of ePayables technologies, as enterprises inevitably realize that process automation will surely replace most manual processes over the next decade, which will eventually place the currently manual AP groups (from invoicing to payment scheduling) squarely in the crosshairs of a technology initiative.

The Ardent Partners ePayables Framework

Ardent Partners developed the ePayables Framework (see *Figure 5 below*) to help AP departments evaluate their various processes. The Framework can also be used to help manually-intensive AP groups understand the technology landscape and help those that have begun to automate better understand how to optimize their technology investments.

For Ardent Partners' purposes, "ePayables" are defined as the solutions and services that fully or partially automate the three phases of the AP process – invoice receipt, invoice processing, and payments. The Ardent Partners ePayables Framework was designed to aid AP departments in improving their processes by segmenting them into smaller, more addressable pieces, making it easier for AP teams to establish a clear view into their current state of operations and then improve upon them. Developing a clear view into the scope of activities that occurs within each phase, what resources and systems are utilized, and what processes are followed puts an AP department into a better position to set standard practices and codify best practices.

Figure 5: The Ardent Partners ePayables Framework™



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The ePayables framework organizes the AP process into three major phases:

- **Receive** – How invoices are received.
- **Process** – How invoices are validated and approved.
- **Pay** – How invoices are scheduled for payment.

“Receive” and “Process” Phases

The first two phases of the AP process – **“Receive”** and **“Process”** – include the methods and solutions that suppliers use to submit invoices into the accounts payable workflow, as well as the tools and processes that the AP (or buying) organization uses to receive, validate, match, approve, and process the invoice information before payment is scheduled. These are essentially the same phases in each organization, but sub-steps across them can vary from enterprise to enterprise. This variance depends on a combination of the organization’s maturity as well as the degree of automation in place.

The “Pay” Phase

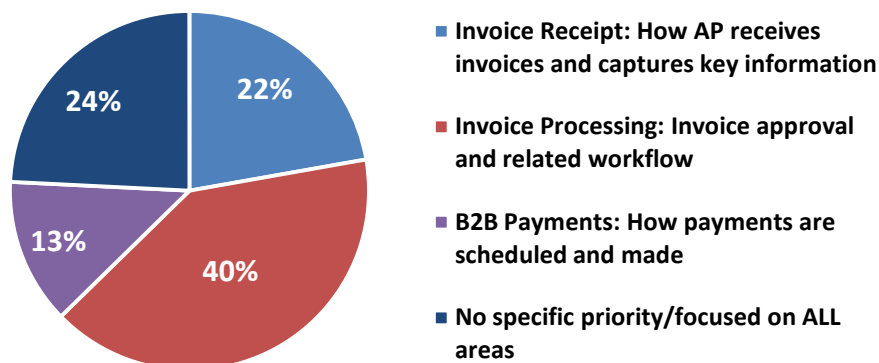
Once an invoice is validated, matched, and approved, the AP process enters its final phase of the ePayables framework – the **“Pay”** phase – which includes the scheduling and execution of the B2B or vendor payment. This phase has the most direct impact on the enterprise’s finances and includes the technologies and processes that enterprises use to schedule and make payments to suppliers. It is during this phase, in fact, that the accounts

payable team can work closely with treasury and finance to develop more sophisticated strategies around its B2B payments and create processes to help optimize working capital. As AP groups begin or expand the automation of their processes and gain (and share) real-time access to invoice and payment data, they are in a better position to influence and support the cash management strategies that treasury and finance wish to implement, enabling AP groups to begin taking their performance to the “higher ground.”

Process Improvement Priorities for 2015

AP and Finance leaders tend to view the AP department’s work on a performance continuum, and the AP transformations they lead are typically multi-year journeys with clearly-defined milestones, but, generally, no final destination – continuous improvement, after all, is a standard business practice. Nonetheless, most AP groups have prioritized one specific phase as the top area to improve over the next 12 months, with 40% focused on improving their invoice processing (see *Figure 6*). The high amount of paper and/or manual activities is the underlying cause of the need for process improvement (see also “*The Paper Avalanche*” on page 33). Of course inefficiencies in one area are directly tied to problems in the others. For example, If suppliers are sending paper invoices and the department’s “receive” process is largely manual, the time to process an invoice will take considerably longer due to the need for a staffer to either manually enter invoice information into a system and begin matching and validation or reviewing it and logging it before sending it across the company for approvals by stakeholders and other AP staff.

Figure 6: ePayables Priorities for 2015-2016

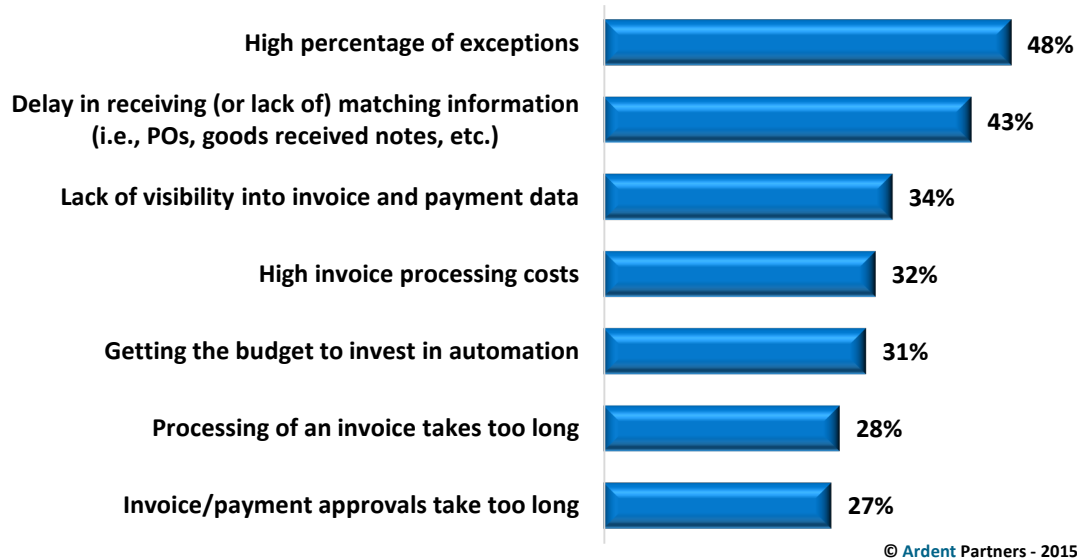


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AP Challenges

When taken as a whole, the challenges facing the typical AP team (see *Figure 7*) can appear daunting, but when viewed individually, each hurdle can be directly addressed with some level of technology. Prior to getting there, however, AP teams must understand what their key problems are and how to potentially solve them. To that end, what follows is a discussion of the top challenges facing AP organizations today.

Figure 7: Top AP Challenges in 2015



High Percentage of Exceptions – The most prevalent AP challenge faced by 48% of all accounts payable departments today is that the percentage of exceptions that must be handled is too high. Exceptions on invoices can occur for the most innocuous of reasons – a missing zip code in an address, an incorrect spelling of a company name – but also for serious issues, such as a missing contract or purchase order. Every exception slows down the AP process and is more costly to resolve than a typical invoice. Manual, paper-based workflows make resolving individual invoices significantly more challenging. It is also harder to diagnose the cause of exceptions in a more global way and identify and cure problem suppliers when the primary activity involves paper. All AP groups should take action to solve this challenge because, as was noted in Chapter 1 (see *Figure 1, page 6*), improving

exception handling is viewed as a transformational strategy that can propel AP performance to the next level.

Delay in Receiving (or Lack of) Matching Information – Validating an invoice against the purchase order (PO), receiving slip, or contract is a critical step in any approval process. Because of this, it makes a bit of sense that hold ups caused by a delay in receiving (or lack of) matching information (43%) is a major issue for the accounts payable team. Delays in receiving the appropriate information extend the invoice approval process unnecessarily, while a lack of information can also cause delays in approval while the AP team seeks out what is needed to gain an approval.

Lack of Visibility into Invoice/Payment Data – In today's business world, where "Big Data" is the watchword, the lack of any sort of data visibility is practically inexcusable. And yet, 34% of respondents to Ardent's ePayables survey marked lack of visibility into invoice/payment data as a top challenge facing their organization. Visibility into payment and invoice data has value beyond the day-to-day management of the AP team and can inform procurement's supplier relationship management work, treasury's cash management strategies, and the internal audit team's ability to close out a period.

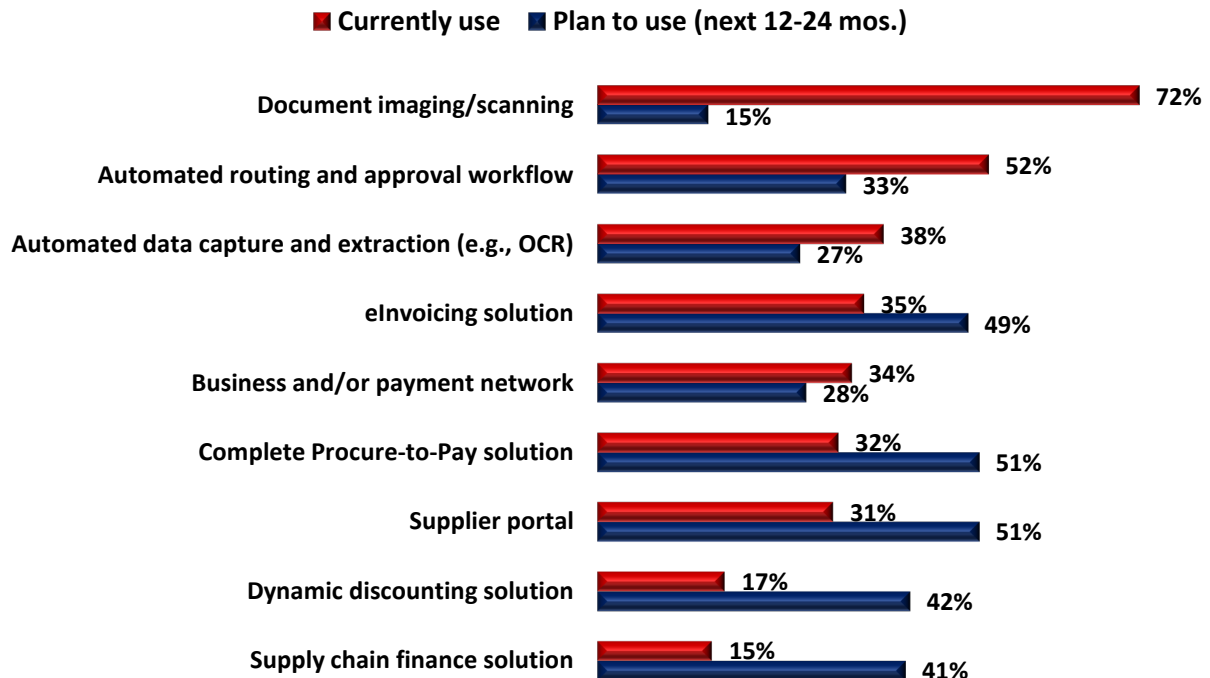
High Invoice-Processing Costs – One of the most persistent issues in accounts payable is the sheer cost of processing each invoice. Compared to an automated process which can digitize the invoice data and then automatically validate it and route it for approval, a manual, paper-based process takes longer and costs more because an AP staffer may need to manually enter the invoice data and manually validate the invoice against multiple documents before forwarding it for approval, while hoping that no errors were made.

ePayables Adoption Rates

Within this business landscape, the importance of improving financial operations, and, with them, driving accounts payable ("AP") transformation and continual improvement to the larger enterprise is as great as it has ever been. Considering this fact, it is easy to wonder why many enterprises still have not fully automated their accounts payable (AP) operation, particularly since this research study (see *Figure 4*) shows that cost reduction remains a top priority for AP organizations in 2015. Ardent Partners research also shows that automation is the tool best equipped to combat high costs, contributing to processing cost reductions that can be as much as 60-80% when compared to manual- and paper-based methods.

Figure 8 below denotes the top ePayables solutions currently used and planned for usage over the next 12 to 24 months. A discussion of the different categories of solutions follows.

Figure 8: ePayables Current and Planned Usage



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Scan, Capture, and Workflow Solutions

Scan, capture, and workflow solutions/services are designed to take paper-based invoices (and supporting documents) and transform their data into a usable electronic format that can be processed in a more automated and efficient manner. In Figure 8 above, the three solutions that fall under this category are: document imaging/scanning, automated routing and approval workflow, and automated data capture and extraction (e.g., OCR). These three solutions, and really the scan, capture, and workflow solutions/services class in general, focus on the initial phases of the AP process.

Document imaging/scanning is, quite simply, the scanning of a paper invoice so it can be turned into an image and more easily routed. In some cases, enterprises will leverage existing document management hardware (e.g., desktop scanners, multi-function printers, etc.) to scan invoices in-house. **Document imaging/scanning (72% adoption)** is widely used, but does not add much value, on its own, to the invoice-approval process. A scanned

invoice, while now a digital image, still needs to be manually entered into an accounting system so that the invoice can be approved and the payment can be scheduled. **Automated data capture and extraction solutions (38% adoption)**, such as optical character recognition (OCR), improve upon simple document imaging/scanning solutions by automatically pulling data from the scanned document and transferring it into the necessary systems for processing, resulting in the reduction or elimination of manually intensive data entry activities.

Automated routing and approval workflow solutions (52% adoption) bolster the capabilities of document imaging/scanning and automated data capture solutions; part of the reason invoice approvals take so long in a manual environment is because invoices can languish on desks or in email inboxes waiting for final approval. Automated routing and approval workflow solutions can eliminate this stumbling block from the AP process. Employing automation in the approval process streamlines the approval process by applying specific business rules to the approval workflow. These rules can accommodate different invoice routing paths based upon many unique elements like invoice amounts, cost centers, organizational structure, tolerance levels, and many others including business travel and vacations. These solutions eliminate the time lag that can occur while waiting for an invoice to be approved.

eInvoicing Solutions

eInvoicing solutions remove paper from the AP process by creating invoices electronically and maintaining that format through the validation, matching, and approval processes. eInvoicing drives process efficiencies given that there is no element of data capture or entry involved. **eInvoicing solutions**

“eInvoicing drives process efficiencies since there is no element of data capture or entry involved, enabling straight-through processing.”

(35% adoption) are of consistent interest among AP teams because the tools offer tremendous simplification on the process side, as well as cost savings in terms of price per invoice. This is most directly seen with the ability of these solutions to enable “straight-through processing,” which occurs when a submitted invoice is processed and approved without any human intervention (and at a very low cost). While an eInvoicing solution is deployed by the buying organization, it requires participation from the supplier base to become truly effective. Supplier enablement can be accelerated by the use of a business or payment network and these solutions are frequently bundled in with **business networks (34% adoption)** and **supplier portals (31% adoption)**, providing access for suppliers among other benefits.

Working Capital Optimization

Invoices are, at their core, a cash-distribution vehicle – paying suppliers creates a cash outflow – so including AP in any discussion of cash management is worthwhile from a strategic perspective. High-performing organizations recognize this and view the invoice approval process as a strategic driver of financial results for the enterprise. **Dynamic discounting (17% adoption)** and **supply chain finance (15% adoption)** solutions are two distinct ways that enterprises can use the accounts payable process to help manage enterprise cash while also offering value to suppliers. Both solutions are designed, in different ways, to help manage cash more effectively as well as extend the days payable outstanding (DPO) number that can be a key indicator of an enterprise's financial health. Dynamic discounting allows enterprises to take advantage of early-payment discounts on a sliding scale throughout the course of the payment period. Standard early payment discounts tend to expire around day 10 or 15, which presents little value if an enterprise's invoice approval process takes longer than the discount period. Dynamic discounting changes this paradigm by creating more opportunities to capture early payment discounts throughout the payment cycle.

Supply chain finance is an altogether different type of solution that accomplishes similar financial results via an intermediary. Sometimes called reverse factoring, supply chain finance solutions allow enterprises to enlist a third-party lender, such as a bank or financial institution, to pay the supplier invoice the instant it is approved. The supplier receives its money on the schedule they choose at an agreed-upon discount, and the buyer pays the third-party the full cost of the invoice instead of the supplier. Since the third-party funder's terms are typically longer than the standard terms of net-30, net-60, etc., the buyer is able to float more money than otherwise possible if paying the supplier directly. Supply chain finance solutions are not yet widespread, but there is strong interest in tight credit markets for this kind of solution.

Business and/or Payment Networks

Ardent defines a “business network” (including supplier or payment networks) as a web-based platform that enables interconnected buyers and sellers to trade, communicate, and collaborate with each other. Globalization and highly-evolved supply chains, better levels of visibility, and connectivity to the “extended” enterprise have been critical elements of maintaining and improving competitiveness. And it is this competitive nature of business that demands that enterprises be more aware of their supply chains and work to better

engage, interact, and communicate with a much larger percentage of their suppliers. Connecting businesses to transact and interact electronically is going to drive the next wave of value for the enterprise. Business networks, in concert with cloud technology, could lead the charge towards a new era of enterprise technology centered on connecting businesses to each other and enabling easier and more efficient communication and interaction across entire supply chains.

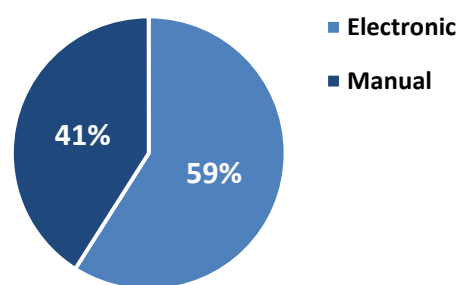
Procure-to-Pay

A P2P process that is well-aligned from an organizational standpoint and tightly-linked and automated from a process standpoint will present a series of opportunities that procurement and finance can jointly pursue to the benefit of the entire enterprise. Many of these opportunities are a by-product of having visibility into spend, invoices, and processes across the P2P spectrum. A **complete procure-to-pay solution (32% adoption)** links AP and procurement systems and processes, including a shared interface and visibility into information across the entire P2P workflow. It also includes some functions for both procurement and AP. Sharing information can allow procurement and AP to make decisions with more information than if both departments worked alone. For example, shared data access allows for richer reporting and more effective communication between departments, which can result in greater efficiencies, better compliance, and improved financial results.

B2B Payments

Ardent Partners research over the past six years has shown that the use of B2B electronic payments (ePayments) is on the rise, having captured the attention of finance and AP leaders around the globe. Paper checks, while still popular, are in slow retreat from ePayment methods such as ACH, payment networks, commercial cards, and wire transfers that can all reduce costs while also improving the level of visibility and accuracy in the vendor payment process. More enterprises today are targeting their payment processes for effectiveness and efficiency improvements as part of a larger AP or P2P transformation program. And, they are doing so against a backdrop of emerging technologies, platforms, and strategies. This convergence of corporate focus with novel industry and technology advances shows

Figure 9: Payment Formats



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that ePayments are not only rising in usage, they are also rising in prominence and business impact. In 2015, use of electronic payments continues to advance slowly, but steadily, now comprising 59% of all payments (*see Figure 9*).

Best-in-Class Performance

To reach “higher ground,” enterprises must not only be committed to transforming their accounts payable functions into true centers of excellence, they must follow the paths blazed by Best-in-Class organizations in the greater pursuit of AP perfection. Ardent Partners has identified specific capabilities, strategies, and solutions currently leveraged by Best-in-Class AP teams as they continue their transformation efforts.

This chapter is designed to enable the reader to do the following:

- Benchmark their performance to industry averages and understand how they perform relative to the average accounts payable programs in the marketplace.
- Understand what operational and performance metrics define Best-in-Class performance levels for accounts payable programs today.
- Understand the wide range of capabilities that Best-in-Class AP departments use to outperform the market.

The notion of accounts payable transformation is not a new concept and it is one that has been validated by the results of top industry performers for years. While these leading groups have seen first-hand that there are efficiencies to be gained from automating accounts payable, there is also a strategic impact from the resulting AP visibility and intelligence.

Nonetheless, the paper problem still persists for far too many AP departments and the industry’s general focus on improvement will prioritize those aspects that reduce the manual touch-points that still plague many AP programs. However, as AP leaders begin to think beyond the obvious paper challenges facing the accounts payable function and focus on the issues that will help them get to the “next level” of performance, they will begin to adopt and model Best-in-Class capabilities and competencies. The solutions, strategies, and insights discussed in this chapter will help AP programs reach higher ground.



The Performance Spectrum: AP Performance Metrics

Today's accounts payable function, considering the path ahead to higher ground, must be aware of its performance across a variety of metrics, all of which are identified in Table 1 below. In order to effectively push accounts payable into the forefront of strategic business territory, enterprises must actively gauge, measure, and analyze their AP performance across a series of key performance indicators to use as a means to establish a performance and business impact baseline and then improve upon them. The average cost to process an invoice at \$13.47 has moved down slightly when compared to the metric in the 2014 installment of this annual ePayables study (\$14.21). Likewise the average time to process and invoice has also improved from 2014 (12.4 days) to 2015 (11.4 days). The arc of AP metrics moves slowly at times but it does bend towards improvement.

While invoice-processing costs and invoice cycle times are critical metrics to track and analyze, as discussed previously in this report it is also incumbent on today's AP professionals to understand their invoice exception rates and develop a plan to reduce them. Exceptions are, and will continue to be, a bane for the accounts payable function and at 17.2% should be a top focus for all AP groups. Additionally, as discussed at the end of Chapter One, paper is a persistent AP problem. Consequently, only a fifth of the average company's suppliers submit invoices in an electronic format; as the AP function continues its path of strategic excellence, it is critical that this figure improve in the months and years ahead.

The final three metrics in Table 1 – the percentages of (1) straight-through invoices processed by the average group, (2) suppliers able to send eInvoices, and (3) PO-based invoices are all efficiency drivers. The higher that each of these numbers is for an AP organization, the lower the average invoice processing costs and times should be.

Table 1: The 2015 Accounts Payable Benchmarks

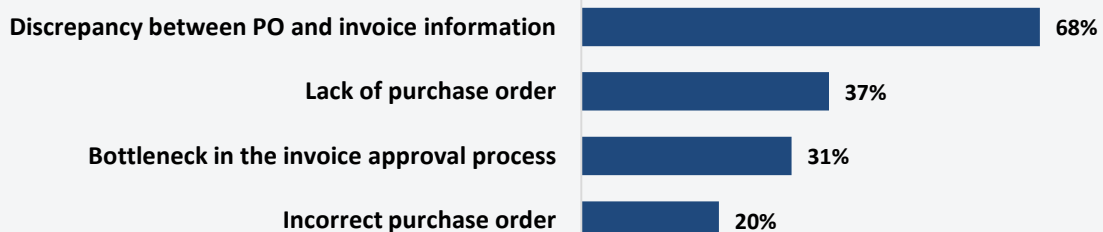
Metrics	Market Average
Cost to process a single invoice (all-inclusive cost)	\$13.47
Time to process a single invoice	11.4 days
Invoice exception rate	17.2%
Percentage of invoices processed "straight-through"	24.6%
Percentage of suppliers that submit invoices electronically	21.0%
Percentage of invoices linked to a Purchase Order (PO)	58.9%

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Exceptions are Unacceptable

As highlighted in Chapter One, the top path to reaching the “next level” of performance in AP is to reduce (or better manage) invoice exceptions because they are frequently at the very core of why an AP operation is underperforming. The reason for most invoices exceptions today is discrepancies between (or lack of) purchase order and invoice information (see Figure 10). When invoices are received and scanned, the entire process is halted if information, such as costs, service / product prices, and date of order, does not match that of the PO. Similarly, if invoices are received without a reference to a purchase order number, an exception is initiated.

Figure 10: Top Sources of Invoice Exceptions



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Why are exceptions so concerning for the average business? Over 17% of the typical company’s invoices cause exceptions. This figure represents a significant chunk of time spent (for AP staff, executives, etc.) on solving the exception and clearing the invoice for entry back into the traditional process. Worse yet, simple bottlenecks in the accounts payable process will also spark exceptions. In a world flooded with paper and manual-laden tasks, exceptions are yet another burden that AP has to bear. Best-in-Class AP operations have cut their invoice-exception rate in half by leveraging standardized capabilities, automating the entirety of the AP process, and adopting a strategic culture in which AP continually moves forward as a hub of intelligence.

Best-in-Class Performance: The AP Advantages

Ardent Partners defines Best-in-Class performance in this research effort as the 20% of enterprises with the lowest average invoice-processing costs and shortest average invoice process cycle times. Top-performing enterprises have taken their AP operations to the next level by leveraging technology to streamline the AP process, make it more efficient, and enable more strategic activities to be carried out. Best-in-Class enterprises have

demonstrated their ability to drive superior performance across both traditional and contemporary accounts payable metrics. As Table 2 (below) highlights, these top-performing, leading edge companies hold distinct performance benefits over all other organizations. They achieve invoice-processing costs that are **82% lower** than that of fellow enterprises and invoice processing times that are **78% faster** than all other groups. Best-in-Class enterprises have achieved invoice exception rates that are **nearly 50% lower** than those of all other organizations, which is driven in part by their higher percentage of PO-based invoices (34% higher). Notably, the Best-in-Class process more than half of their invoices straight-through (54%) which significantly contributes to the big advantage they possess in most metrics.

Table 2: AP Performance Comparison, Best-in-Class vs. All Others

Metrics	Best-in-Class	All Others
Cost to process a single invoice (all-inclusive cost)	\$2.94	\$15.96
Time to process a single invoice	3.6 days	16.6 days
Invoice exception rate	9.8%	19.1%
Percentage of invoices processed “straight-through”	54.1%	17.3%
Percentage of suppliers that submit invoices electronically	44.0%	12.3%
Percentage of invoices linked to a Purchase Order (PO)	73.1%	54.5%

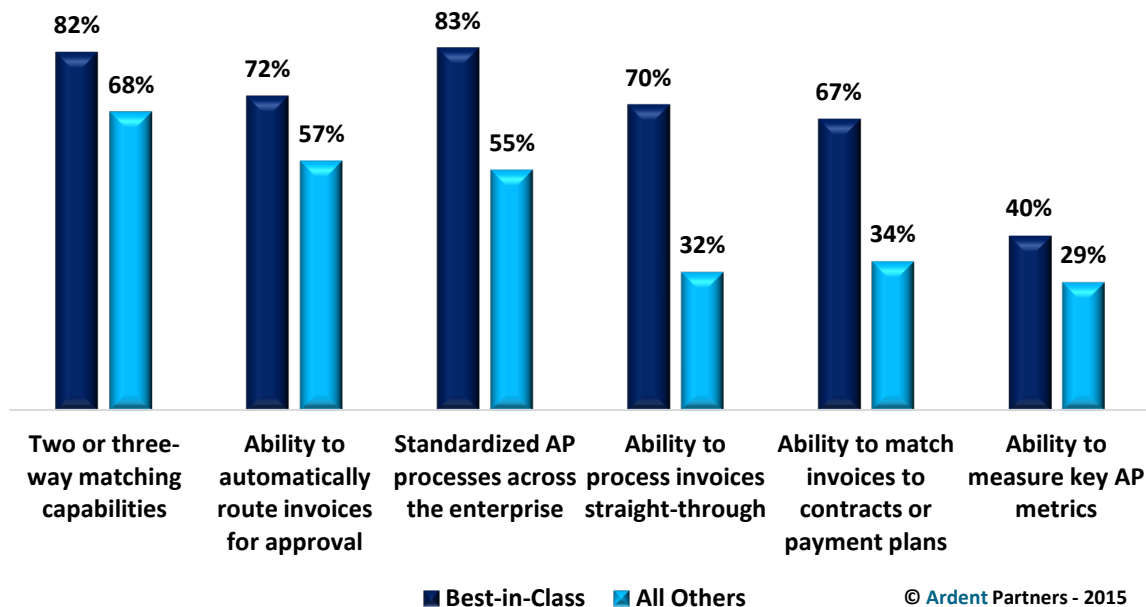
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The advantages of Best-in-Class companies were achieved based off of a reliance on core and “next-generation” capabilities as part of their overall AP programs, as well as a willingness to adopt automation and centralize specific operational components of not just accounts payable, but total financial management.

Best-in-Class AP Programs: The Leading Edge

Best-in-Class businesses have demonstrated their ability to drive superior performance across a series of key metrics and automation plays a key role. But, these top performers are also leveraging a variety of key technologies and AP capabilities (see Figure 11) across the end-to-end process to drive their sizable advantage.

Figure 11: Key Accounts Payables Capabilities, Best-in-Class vs. All Others



While many of the advantages possessed by Best-in-Class AP departments are linked to their ability to automate their processes, the typical Best-in-Class AP program is far from one-dimensional. In order to drive the level of performance associated with this maturity class, AP programs must rely upon an array of capabilities that expand existing processes, standardize and centralize core operations, and actively drive visibility:

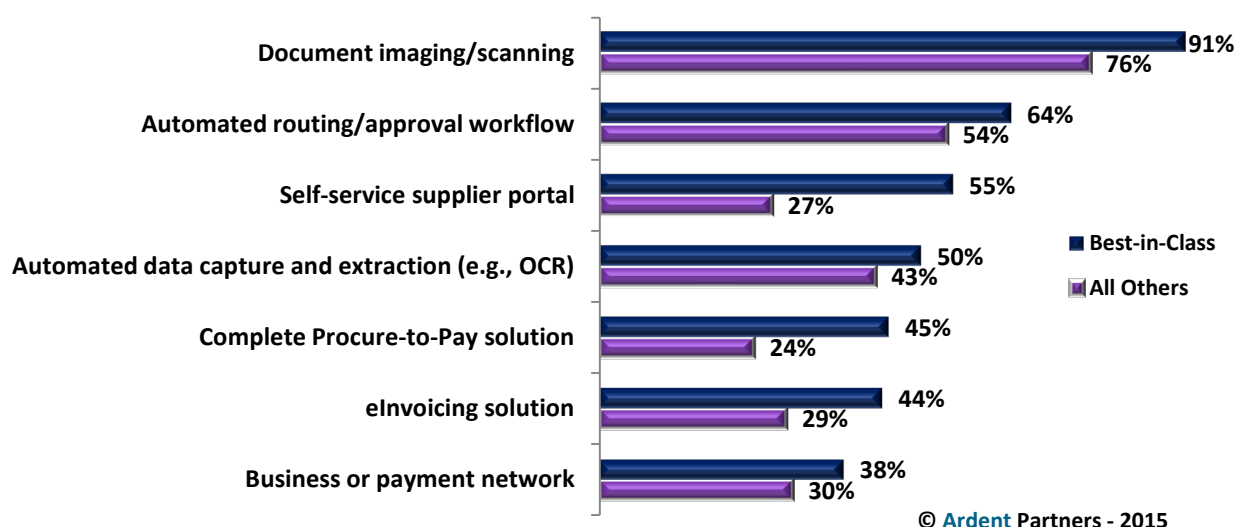
- **Standardization** may seem like a “basic” capability, but many AP organizations still struggle to leverage repeatable, standardized processes for AP across all business units, regions, and functions. For the AP program to maximize its efficiency attributes, standardization isn’t just a capability ... it is a necessity.
- **Leveraging technology for straight-through processing** is the holistic realm for accounts payable. Invoices, as explained in Chapter Two, follow a framework from receipt to approval workflow to payment, and the ability to process them “straight through” without human intervention is a boon for reducing costs, improving cycle times, and having access to real-time invoice data.
- **Improve matching capabilities.** The true value and impact of AP, in regards to reaching the “higher ground” status desired by today’s finance executives, is in its

core intelligence and its superior linkage to the rest of the enterprise. How does AP provide better, more actionable information to the executive team? By matching invoices to contracts for maximum supplier management visibility (and to gauge performance against contracts), and also by linking invoices to working capital optimization fueled payment plans that rely on solutions such as dynamic discounting.

Digging Deeper into Best-in-Class AP Operations

Beyond the programmatic and process-driven capabilities in the Best-in-Class accounts payable program, they have ePayables adoption rates that are between roughly 20% and 50% higher than all other enterprises (see Figure 12).

Figure 12: ePayables Adoption - Best-in-Class vs. All Others



Associated with the higher levels of technology adoption are several major strategy- and solution-specific advantages that these businesses hold over all other enterprises:

- **P2P automation pays.** The link between procurement and AP stretches beyond collaborative measures. In fact, processes related to procure-to-pay operations are a direct reflection of an enterprise's ability to manage its spend effectively. Best-in-Class companies are 88% more likely to employ P2P automation as part of their overall operations.

- **Avoid the paper problem.** Best-in-Class enterprises are 52% more likely than all other enterprises to utilize eInvoicing as part of their overall accounts payable program. As a result, more Best-in-Class enterprises are avoiding the error-ridden, menial, and time-consuming annoyances associated with traditional paper invoices by receiving, processing, and managing electronic invoices from their suppliers.
- **The only way out is straight through.** Best-in-Class companies are processing three times as many invoices straight-through (without human intervention) as all other groups ... a factor that speaks directly to this group's top-tier AP performance. Straight-through invoice processing exemplifies a highly efficient AP operation, which ties in with a strong technology implementation as well as a mature business process which functions according to well-defined rules.

Case Study: Working with Procurement to Drive Improved Results

The level and quality of procurement and AP convergence varies dramatically among enterprises in the marketplace today, which means that the more agile organizations are effectively using their P2P operations as a competitive weapon to gain an advantage over their rivals. Organizations that lack a seamless procure-to-pay (P2P) process typically see an erosion of value as they move across the entire process. As one Global P2P Director interviewed for this study said, "60% of our invoice exceptions are not related to accounts payable and so it is important to partner with our colleagues in procurement and have full visibility into the broader process." Those that are more successful in combining their P2P processes, systems, and organizations report a series of benefits, including:

- An ability to optimize working capital across the P2P process by developing proactive payment strategies and pursuing dynamic discounting opportunities*
- Improved supplier relationships aided by an ability to pay suppliers on time (or early) and accurately as well as better data to support improved inquiry response times*
- Better identification of sourcing opportunities through more accurate spend data from invoices (and payments)*
- Improved contract compliance and reduction of maverick spend by linking invoices and payments to contracts*
- Better success with supplier enablement by leveraging a 'one-time' on-boarding process for procurement and AP systems*

The potential P2P performance gap that can exist between competitors warrants the attention of the CFO and the CPO as well as other AP and finance leaders. For the typical P2P organization, the immediate opportunities are to:

- (1) Drive efficiencies quickly*
- (2) Become more operationally effective*
- (3) Expand the scope of those operations for the greatest possible impact*
- (4) Become more strategically aligned with the business*

What is certain is that a seamless P2P process should not be the "road less traveled" by business leaders in 2015.

Strategies for Success

In order to transform an accounts payable function into a streamlined, holistic center of enterprise excellence and intelligence, companies must first follow the paths tread by Best-in-Class organizations in regards to technology adoption, cultural alterations, and programmatic capabilities and competencies.

Today's accounts payable departments are in a prime position to break from the back-office mold of the past and drive true value to the greater enterprise by becoming a hub of actionable information and intelligence. To push free from the traditional perception linked to this unit, financial executives must place their AP groups in a situation that allows for allocation of resources, technology, automation, and new strategies and solutions. The "strategies for success" outlined in Chapter Four can spark true accounts payable transformation and ensure that the path forward rises to higher, more strategic ground.

"AP cannot become truly strategic if it does not prioritize the process-oriented aspects of the function."

Recommendations for All Enterprises

The following recommendations for action have been designed to help all AP departments, regardless of size, scope, or industry, enhance their existing operations and position the function for long-term enterprise value.

- **Prioritize the reduction of invoice exceptions.** The "next level" is a state of business mind that is only attainable through a rigorous approach to improving key aspects of the accounts payable function. Invoice exceptions have been the thorn in the side of many an AP department and the cause of critical delays that destroy the relative efficiency that all groups ultimately strive to reach. Best-in-Class companies have reduced their invoice exception rates to less than 10% through the dedication to process improvements and higher reliance on ePayables solutions.
- **Bridge the collaboration gap and ensure that AP and procurement work in unison.** Procurement and accounts payable have similar and unique goals; however, collaboration is a strategy that will always benefit the greater organization. The

question is does this present the path to “higher ground?” The foundation of this goal is built on the notion of intelligence. Regular communication between procurement and AP will drive data and insights into the total financial health of the entire enterprise, as well as fuel supplier information and spend management efforts.

- **Intelligence is king, now and in the future.** While the reduction of invoice-processing costs will always be a primary target for AP professionals, today’s AP groups are prioritizing the collection, analysis, and utilization of invoice and financial data. How can AP become a true hub of intelligence? By providing procurement and other key stakeholders with the necessary information for long-term planning, forecasting, and budgeting.
- **Efficiency first, value-added tasks later.** The path to “higher ground” is accessible, as many accounts payable professionals see the light at the end of the back-office tunnel. However, AP cannot become truly strategic if it does not prioritize the process-oriented aspects of the function. Objectives such as straight-through processing (which eliminates all manual touch-points through the life of an invoice) and standardization of simple AP tasks (such as invoice receipt and related approval workflow processes) are just as critical to performance today as the capabilities that will push AP to higher ground.

Next Level Recommendations for AP Professionals and Executives

The realm of “higher ground” is fast approaching. As accounts payable professionals and finance executives continue to master the inner-workings of the function, including streamlining the processes involved with managing invoices, there should always be an eye towards the future and attaining the “next level” of performance. As businesses continue to react to evolving market conditions and fast-changing requirements, AP will need to become a hub of intelligence and corporate value. The following recommendations will help organizations better prepare for the future and assist them in achieving “next level” performance:

- **Understand the value of business networks and make a push to becoming part of the interconnectivity.** Electronic commerce is not only comprised of transactions, invoices, and simple data. Today’s top-performing businesses are the ones that view their supply chains as the source of extraordinary value. Business networks not only

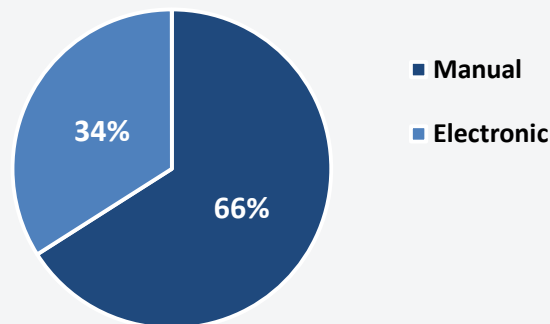
automate the process-oriented aspects of accounts payable, but can also centralize data collection, information analysis, and provide a gateway for collaboration between buyers and suppliers. These solutions are the future of business ... and to reach “higher ground,” AP executives should leverage this type of interconnectivity.

- **Focus on the “payment” portion of the ePayables Framework as the next opportunity for strategic growth and value.** While the majority of today’s organizations are focused on the efficiency aspects of accounts payable (i.e., invoice receipt and workflow), the payment phase of the Ardent Partners ePayables Framework cannot be ignored much longer; but rather, favored as a great opportunity for value. Early payment discounts, dynamic discounting, and supply chain finance represent the next wave of solutions and strategies for maximizing the AP function’s contribution.
- **Build AP into a function that promotes business agility.** The business world is constantly evolving, forcing executives to develop new strategies for managing ever-shifting complexities. Those organizations that want to prepare accordingly will look within for tools and capabilities to manage these intricate challenges. The accounts payable function, with efficiency and intelligence in tow, will play a vital role in how the greater enterprise reacts to progressive business needs.

The Paper Avalanche

As businesses strive to reach AP's coveted "higher ground," there is one key component on which they should focus in the years ahead: removing paper from the entirety of the accounts payable function. At the end of the day, the true eradication of manual- and paper-based invoice-processing strategies will signal a bright new era in the world of finance. As shown in Figure 13, the vast majority of invoices are still received in paper format and processed via manual methods.

Figure 13: Paper vs. Electronic: Today's Invoice Picture



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With nearly two-thirds of all invoices managed, processed, and analyzed in a manual and manual manner, it begs one question: when will automation be the default foundation for accounts payable functions? As enterprises continue to push the AP unit into more strategic territory, automation will not be beneficial ... it will be required. The cost and time benefits of AP automation merely represent the surface of today's technological revolution; when the day comes that accounts payable achieves its "higher ground" status and becomes the true hub of intelligence, it will be because automation was a key attribute.

How Does AP Get to Higher Ground?

Accounts payable professionals are continually searching for the means to drive value to the greater organization, understanding that they have the experience, tools, and reach to move away from back-office processes and into new strategic corporate territory. This *ePayables 2015: Higher Ground* research study surveyed over 175 accounts payable professionals and both procurement and finance executives to understand the direction of the AP function. Building on the concept of "next level" performance and reaching a higher ground where accounts payable could be a true center of excellence, intelligence, and value, Ardent Partners asked its research participants how they could reach this desirable future state. What follows are a few of their quotes and ideas:

1. Drive Efficiency and Collaboration

Efficiency is the foundation of the next-level AP function. In order to attain strategic value, businesses must first start by producing tactical value. Participants in the *ePayables 2015: Higher Ground* research study believe that efficiency and collaboration are two highly-functional aspects to reaching “higher ground.”

“We need a holistic approach to take care of the large number of varied connections internally and externally when it comes to accounts payable.”

“We need to take a hard look at joining with procurement so both departments can achieve their goals.”

2. Technology and Automation

AP’s paper avalanche has trapped many AP groups at “base camp” who wish to reach the summit of “AP excellence.” In fact, no single AP operation can truly move forward if it is mired in paper- and manual-based invoice-processing strategies and programs. Finance executives and professionals understand this aspect, knowing that “higher ground” will only be achieved when automation is prevalent throughout the entirety of the AP function.

“We need to move our vendor interface to the cloud,” and, “There should be a full rollout of an AP invoice automation solution, a rollout of purchase cards, and increased cost visibility.”

3. Payments: The Next Frontier of AP

While invoice processing’s inner workings are the focus of today’s AP professionals, the truth is the payment portion of the ePayables Framework is just as critical. Early payment discounts, dynamic means of cash management, working capital optimization strategies, electronic payments ... these aspects, strategies, and solutions can truly help businesses maximize the strategic impact of the overall finance function.

“We have extremely high peaks and valleys in our AP. To accept a large order from a customer we need to be able to exceed our credit limit with some suppliers. We may need to establish dynamic escrow accounts with our bank or other service.”

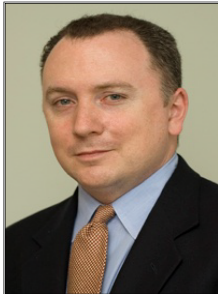
Conclusion

The advances in AP automation continue unabated, but significant challenges remain for those AP groups seeking to reach new heights in the digital age. As more enterprises around the world continue to adopt and leverage ePayables, retaining order inside the business becomes much easier. Focusing solely inward, however, can trap any AP group on a performance plateau. The challenge then for all AP and finance leaders is to push higher; that push must incorporate a view of the stakeholders and suppliers working within and beyond the enterprise.

Appendix

About The Authors

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Andrew Bartolini is a globally-recognized expert in accounts payable, sourcing, procurement, and supply management. Andrew focuses his research and efforts on helping enterprises develop and execute strategies to achieve operational excellence within their finance and procurement departments. Andrew is also the publisher of [CPO Rising](http://www.cporising.com), the news and research site for Chief Procurement Officers and other procurement leaders (www.cporising.com).

Advisor to corporate executives and leading solution providers alike, Andrew is a sought-after presenter, having lectured and presented more than 200 times in seven different countries. Over the past decade, Andrew has benchmarked thousands of enterprises across all facets of their accounts payable, sourcing, procurement, and supply management operations and his research is currently part of the Supply Chain/Management curriculum at several US universities. He actively covers the technology marketplace as well as trends in sourcing, procurement, supply management, and accounts payable and has been published or quoted in leading business publications including The Wall Street Journal, Business Week, Investor's Business Daily, Forbes, and Fortune, as well as the major trade publications focused on accounts payable and supply management.

Prior to becoming an industry analyst, Andrew developed, packaged, deployed, and used supply management solutions on behalf of enterprises in the Global 2000 while working for Ariba and Commerce One. Additionally, his experience in strategic sourcing (where he managed sourcing projects totaling more than \$500 million in aggregate client spend), business process transformation, and software implementation provides a “real-world” context for his research and writing.

Andrew has been named a “Pro to Know” by Supply and Demand Chain Executive three times and holds a B.A. in Economics from The College of the Holy Cross and an M.B.A in Finance from Indiana University. He welcomes your comments at abartolini@ardentpartners.com or 617.752.1620.

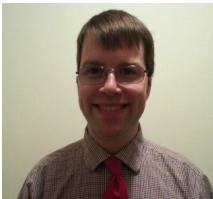
Christopher J. Dwyer, Research Director and VP of Operations, Ardent Partners



Christopher J. Dwyer is considered a premier thought leader in the world of supply management and a renowned expert in complex spend management, including contingent workforce management, travel and expense management, and meetings/events management. He evangelizes the evolution of complex spend management strategies and solutions, and has written hundreds of research reports and interviewed, advised, and benchmarked thousands of end-user professionals and executives in regards to their complex spend management operations over the last decade. Christopher joins Ardent from the Aberdeen Group, where he spent more than seven years tracking the progression of complex category spend management strategies and solutions while helping to educate the global market. At Aberdeen, Christopher led Aberdeen's Global Supply Management practice and oversaw and contributed to the company's coverage of procurement, strategic sourcing, spend analysis, ePayables (accounts payable automation), and supplier management.

Christopher was named an "Analyst Superstar" by HRO Today magazine in both 2013 and 2014 for his work in the contingent workforce management industry, and was also recognized by Supply and Demand Chain Executive Magazine as a "Pro to Know." Christopher leads Ardent's coverage of complex spend management, including the evolution of contingent workforce management, T&E expense management, and all other complex categories of spend and provides research and advice so that end-user organizations can enhance their capabilities and competencies and make the smart decisions that will ultimately improve their performance. He welcomes your comments at cdwyer@ardentpartners.com, on LinkedIn (www.linkedin.com/in/christopherjdwyer), or Twitter (@CJD_Ardent).

Matthew Delman, Senior Payables Researcher, Ardent Partners



In his long and varied career, Matthew Delman has worked as an editor, writer, and/or online marketer for The Eagle-Tribune Newspaper Group, The NASDAQ OMX Group, an investment newsletter, and a research-focused marketing services firm. Over the course of nearly 15 years as an editorial professional, Matthew has had a hand in the development of more than 2 million pages worth of print and online content.

His research focus at Ardent Partners comprises the entire accounts payable and financial operations areas including B2B payments. Matthew is also the editor for [Payables Place](http://www.payablesplace.com) (www.payablesplace.com) and focuses on keeping the site updated with a constant stream of fresh and interesting research, news, and analysis from the world of AP automation. He is available for briefing requests and/or third-party article contributions at mdelman@ardentpartners.com.

About Ardent Partners

Ardent Partners is a Boston-based research and advisory firm focused on defining and advancing the supply management strategies, processes, and technologies that drive business value and accelerate organizational transformation within the enterprise. Ardent also publishes the [CPO Rising](#) and [Payables Place](#) websites. Register for exclusive access to (and discounts on) Ardent Partners research at ardentpartners.com/newsletter-registration/ and [join its LinkedIn Group](#).

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Research Methodology

Ardent follows a rigorous research process born from years of market research experience conducted in the accounts payable (“AP”) market. The research in this report represents the web-based survey responses of 175 business professionals and includes interviews from several accounts payable and finance executives. These 175 participants shared their strategies and intentions, as well as their operational and performance results to help us define Best-in-Class AP performance and understand what levers the leading groups use to obtain their advantage. This primary research effort is based upon the survey responses, interviews, and the experience and analysis of the report author. Complete respondent demographics are included below.

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Report Demographics

The research in this report is drawn from respondents representing the following demographics:

Job Function: 56.8% accounts payable; 20.9% finance/treasury; 14.1% procurement; 8.3% other

Job Role: 20.1% VP-level or higher; 29.1% director-level; 36.4% manager-level; 14.6% other

Company Revenue: 57.8% Large (revenue > \$1 billion); 21.2% Mid-market (revenue between \$250 million and \$1 billion); 21.2% Small (revenue < \$250 million)

Region: 71% North America; 19% EMEA; 9% Asia-Pacific; 1% South America

Industry: More than 20 distinct industries are represented. Public Sector, Health Care, Financial Services, Education, and Manufacturing are the largest industries in the survey pool; no industry represents more than 15% of the overall survey respondents.

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