mineraltree®
A Global Payments Company

2022

The 7th Annual State of AP Report

Key Trends, Business Priorities, and Challenges for AP Teams and Their Vendors

Executive Summary

In 2022, companies are accelerating their digitization efforts in an attempt to overcome ongoing operational challenges caused by the COVID-19 pandemic, including disrupted supply chains, hybrid work environments, and the Great Resignation. Unfortunately, industry experts expect these issues to persist for the foreseeable future, further burdening AP teams that are struggling to keep up with growing volumes of invoices and payments.

Despite these obstacles, business executives continue putting pressure on financial leaders to pay vendors on time to keep goods and services flowing. Historically, businesses have addressed operational issues by adding headcount. However, this is not a viable option today given the shortage of solid candidates, rising wages, and prioritization of customer-facing hires. For those that are able to fill their open roles, many still struggle to solve the inherent inefficiencies and unnecessary costs of manual AP processes.

For these reasons, many finance leaders are embracing digital tools to optimize their AP operations, streamline payments, and solidify vendor relationships. In this environment, it's no surprise that The 2022 State of AP, MineralTree's seventh annual report, finds that AP remains the #1 back-office digitization priority, and at a higher level than last year.

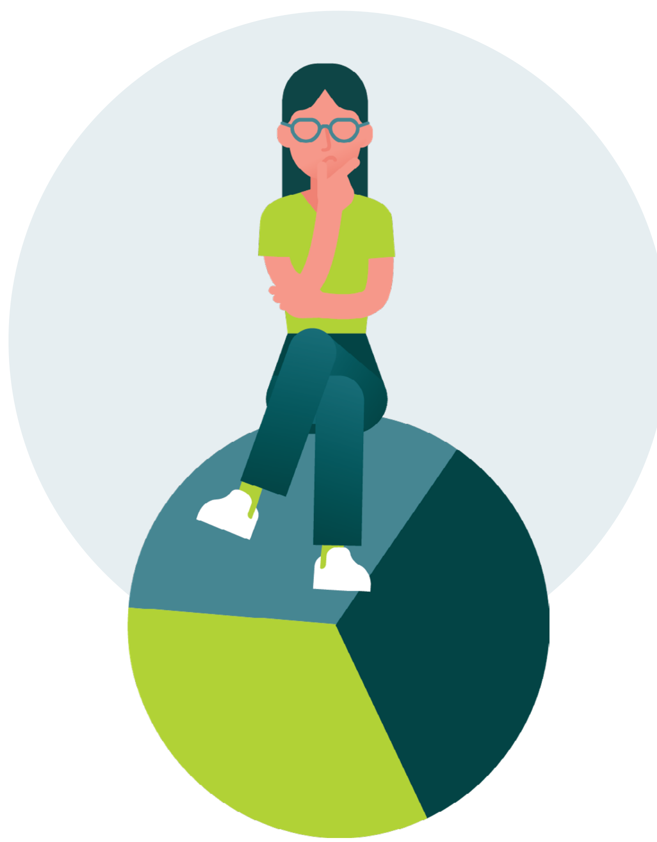
New report features first-ever vendor survey

With vendor relationships growing more important than ever, we decided to expand this year's report to include a supplier survey. This marks the first time ever that we have feedback from finance leaders as well as their vendors to capture a 360-degree view of the AP and B2B payments landscape, its most pressing issues, and their impact across a range of industries. By better understanding vendor priorities – topped by their desire for fast payment – finance leaders can make the necessary changes to strengthen these critical relationships.

What to expect

This year's report extracts key trends and patterns across the AP landscape with dozens of insights and graphs, including comparisons with last year's data. Aside from covering AP's growing focus on automation, our research identifies several obstacles impeding its adoption (page 7). In that vein, we also present insights for optimizing operations through AP automation and managed services to absorb volume growth, manage suppliers, and support a hybrid work environment.

Lastly, the report dives into the growth of electronic payments, starting on page 11, including their benefits and obstacles, as well as how they complement AP automation. Most notably, this section dives into the ePayments blame game happening between buyers and vendors, and why each party lists the other as the top obstacle to ePayment adoption despite mutually beneficial and desired goals (page 13).



Contents

Pressure Mounts on AP Amid Growing Obstacles

While the pandemic caused significant, ongoing challenges across business operations, nowhere in the back office is its impact felt more acutely than in Accounts Payable (AP). That's because of AP's strategic role in paying vendors on time, and ensuring strong relationships to ensure access to business-critical resources. This survey shows that finance leaders realize the importance of AP, as well as the obstacles it faces, in a year marked by volatile supply chains and staffing issues. Below, we examine how these circumstances have catalyzed four key AP trends this year.

1. Vendor relationships are more important than ever (hint: prompt payment is the key to keeping suppliers happy)

Due to supply chain issues, finance leaders are now placing greater weight on vendor relationships than ever before.

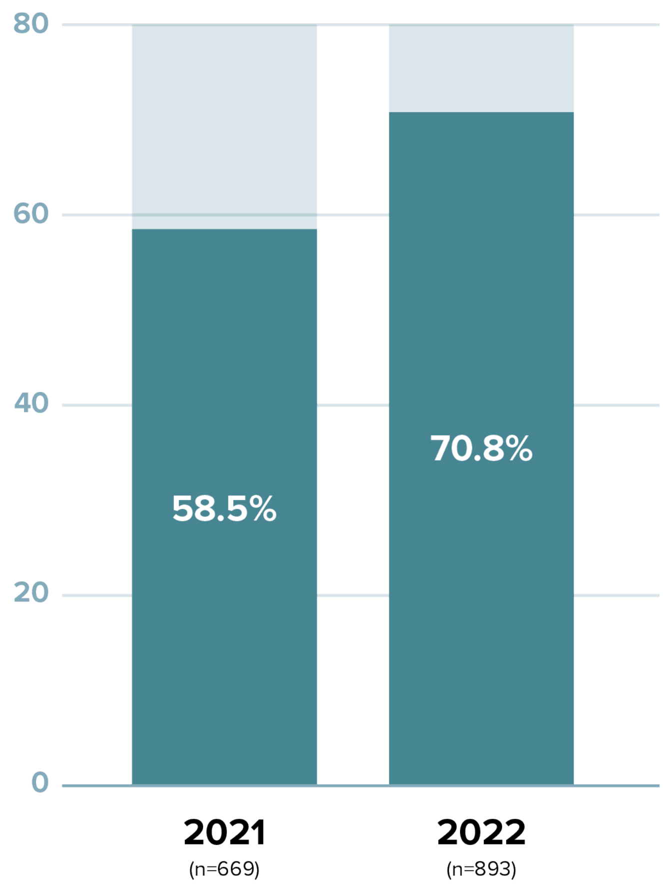
71%

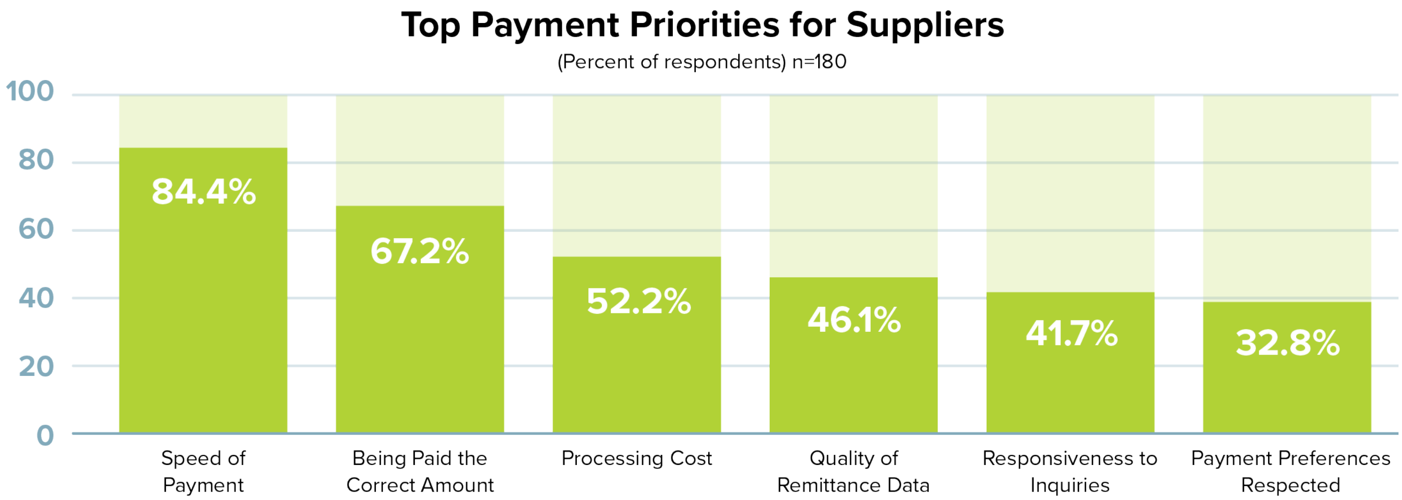
Nearly 71% of finance leaders state that their relationships with vendors grew in importance over the past year, compared to 58.5% in 2021.

So how can buyers satisfy their vendors? When asked what they value most from the payment experience, vendors' top response is the speed of payment (84.4%), followed by payment accuracy (67.2%), and processing cost (52.2%), among others. Yet, market and organizational challenges hinder AP's ability to quickly process and pay invoices, and ultimately fail to deliver on their vendors' wishes.

Organizations where supplier relationships grew more important over the last year

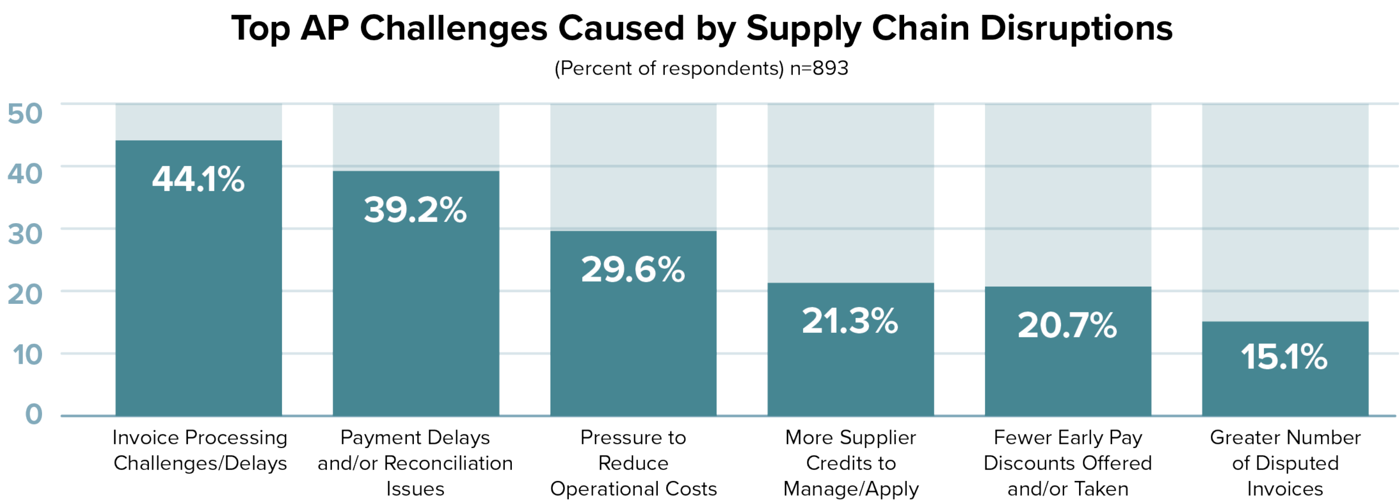
(Percentage distribution of respondents)





2. Supply chain disruptions wreak havoc on AP processing and payments

According to finance leaders, AP's top challenge caused by ongoing supply chain disruptions is invoice processing issues and delays (44.1%), followed by payment delays and/or reconciliation issues (39.2%), and the pressure to reduce operational costs (29.6%). Logistical breakdowns, such as delayed or partial deliveries, are a major cause of these processing delays, which often lead to late payments.

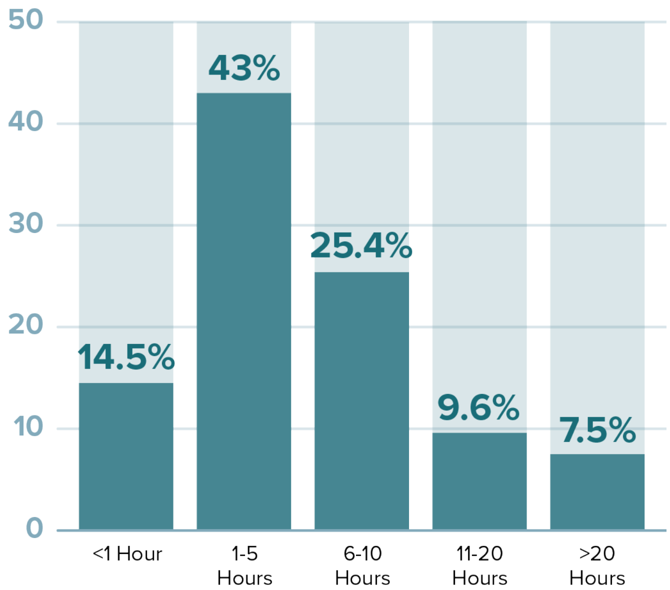


3. Invoice and payment inquiries waste too much of AP's and vendors' time

Payment delays cause increased vendor inquiries, further slowing processing time. This can ultimately consume the limited bandwidth of lean AP teams. Finance leaders noted that 43% of their teams spend 1-5 hours each month responding to vendor inquiries, while 25.4% spend 6-10 hours. These interruptions cut into valuable time of the AP team, adding yet another task to their list of responsibilities. They also drain team productivity, since it's estimated to take workers 23 minutes to regain focus following a workplace interruption. Multiply that by dozens of inquiries each month, and it's no wonder many AP teams either fall behind on answering vendor inquiries or find themselves strapped for time to manage the rest of their workload.

Average Time Spent Responding to Supplier Inquiries (Monthly)

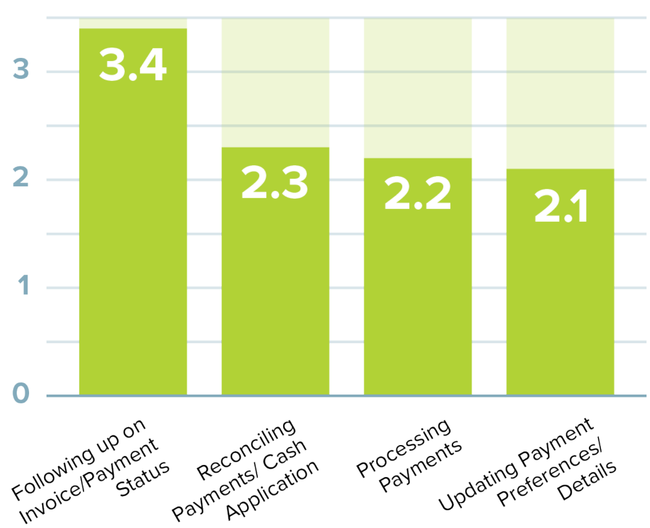
(Percent of respondents) n=893



Unsurprisingly, vendors rank following up on payment status as their biggest payment pain point. It is followed closely by reconciling payments/cash application, processing payments and updating payment preferences/ details. Buyers and vendors alike seem to agree that making or responding to vendor inquiries is an important yet frustrating time suck.

Biggest Pain Point for Suppliers in the Customer Payment Process

(Average rating amongst respondents on a scale of 1-5, 5 being the largest pain point) n=180



4. Hiring qualified AP staff is getting more difficult

Historically, firms have used hiring as a solution to increase the workload capacity for AP. Unfortunately, the shortage of qualified candidates due to the Great Resignation has made this increasingly hard and expensive.

54.3%

More than half (54.3%) of the finance leaders surveyed said they expect challenges or delays in hiring quality AP staff this year.

Even without the challenges, throwing more people at a fully or partially manual process doesn't solve the efficiency problems associated with time-consuming tasks, such as: data entry, going into the office to retrieve paper invoices and prepare checks, and physically routing invoices for approvals and checks for signatures. It also leads to more inaccuracies due to human error.

Unlike adding headcount, AP automation offers firms sustainable, scalable growth by cutting down the manual tasks associated with the AP workflow. The hiring challenges referenced above are just one reason that AP automation is growing more popular among today's firms.

Companies are Digitizing AP to Address Efficiency Challenges, But There's Room for Deeper Adoption

Thanks to digitization, companies can significantly shorten the invoice-to-payment cycle, fulfilling the number one desire of vendors to get paid quickly. It also reduces processing costs and errors, strengthens AP security, and enhances visibility and cash flow management.

Full end-to-end AP automation gives finance leaders visibility – in one centralized view – into every invoice and payment across their organization. Now, they can view key data and insights to uncover bottlenecks, optimize payment methods, and identify opportunities to save money with volume discounts and early payments.

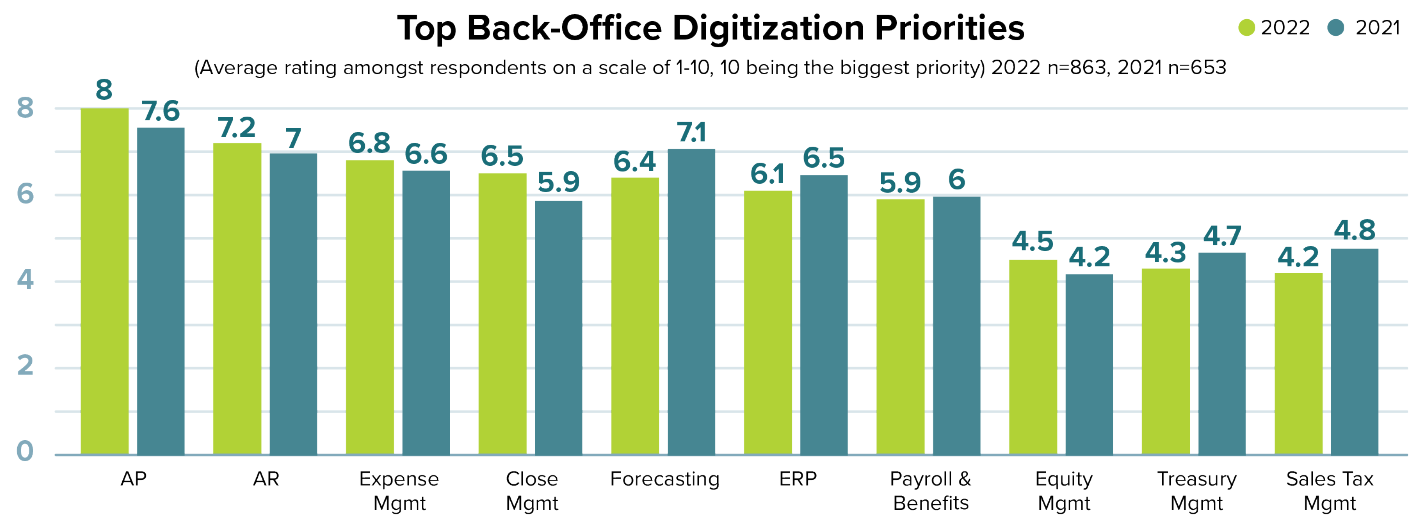
AP remains the #1 digitization priority for the back office

By selecting AP as their top automation priority, finance leaders recognize the strategic importance of timely payments to keep essential goods and services flowing. They also understand that paper-based, manual methods are no longer feasible in today's complex and hybrid business environment.

Other top back-office digitization priorities this year include Accounts Receivable (AR), expense management, close management, and forecasting. While AP was also the top priority in 2021, it has grown in importance this year. Meanwhile, AR moved up a position from the number three spot in 2021 to number two this year, probably due to the increased need

Top Back-Office Digitization Priorities

(Average rating amongst respondents on a scale of 1-10, 10 being the biggest priority) 2022 n=863, 2021 n=653



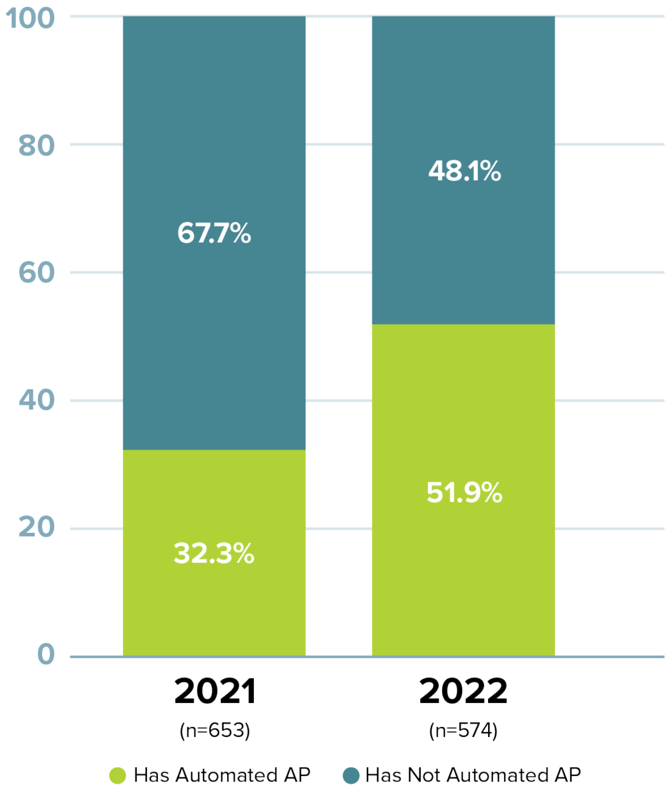
for cash inflows given inflation concerns. Similarly, expense management moved into the number three position, likely due to these concerns as well as the re-emergence of business travel.

AP automation is on a growth trajectory

AP automation rates grew 61% from 2021 to 2022. Nearly 52% of companies have automated AP in 2022, compared to just over 32% last year.

AP Automation Adoption Rates

(Percentage distribution of respondents)

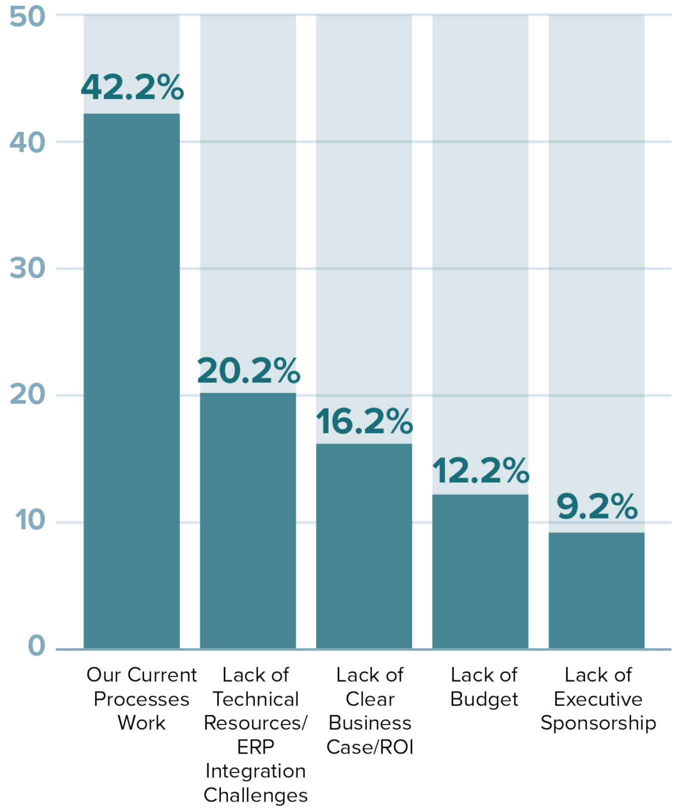


AP mindset is the greatest barrier to automation

Despite AP automation's impressive progress, one key barrier stands in its path. Organizations continue to embrace traditional, overly-manual AP methods, believing that their current processes are working (42.2%). This perception is by far the greatest barrier to AP automation, surpassing the lack of technical

Top AP Automation Barriers in 2022

(Percentage of respondents) n=327



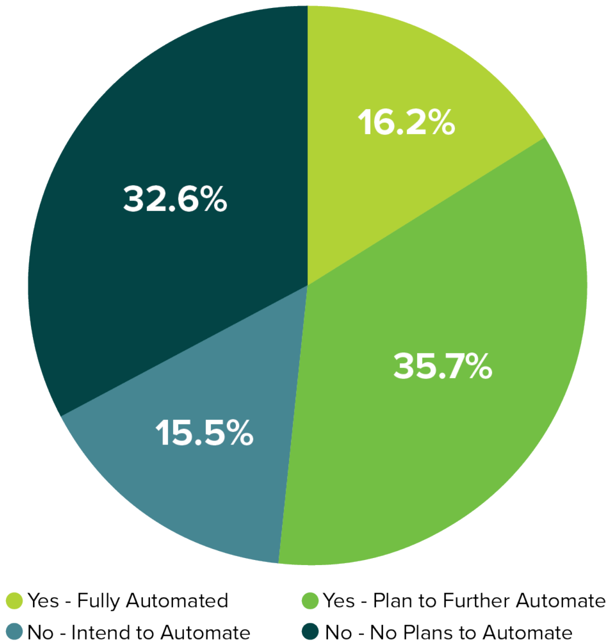
resources and ERP integration challenges (20.2%), and even budgetary restrictions (16.2%). It's particularly difficult for legacy, on-premise customers to overcome this inertia and implement change because they have not yet made the move to the cloud, and are reluctant to ditch old methods and technologies even if they are no longer working.

Most companies are partially automated, missing critical end-to-end value

AP automation covers a wide range of activities from streamlining just one step of the AP process to digitizing the end-to-end invoice-to-pay cycle. Since every step of automation provides additional value, the more automated an AP department is, the greater its competitive advantage. Companies investing in full, end-to-end AP digitization realize compounded benefits – greater than the sum of its parts – by eliminating friction and gaining synergies and insights across each

Has Your Organization Automated its AP Process?

(Percentage distribution of respondents) n=574



of the individual processes. These world-class AP teams achieve significantly higher efficiencies, cost-savings, and visibility across their invoice-to-pay process, while reducing payment timelines.

Teams with complete end-to-end AP automation have unified visibility into all of their invoices and payments – they can see what invoices are coming up, which vendors need to be paid, and exactly how much. This not only helps prevent obstacles like human error and lost invoices from slowing down their payment process, it also enables finance leaders to better manage payments by avoiding late fees and strategizing the most advantageous payment timelines.

16.2%

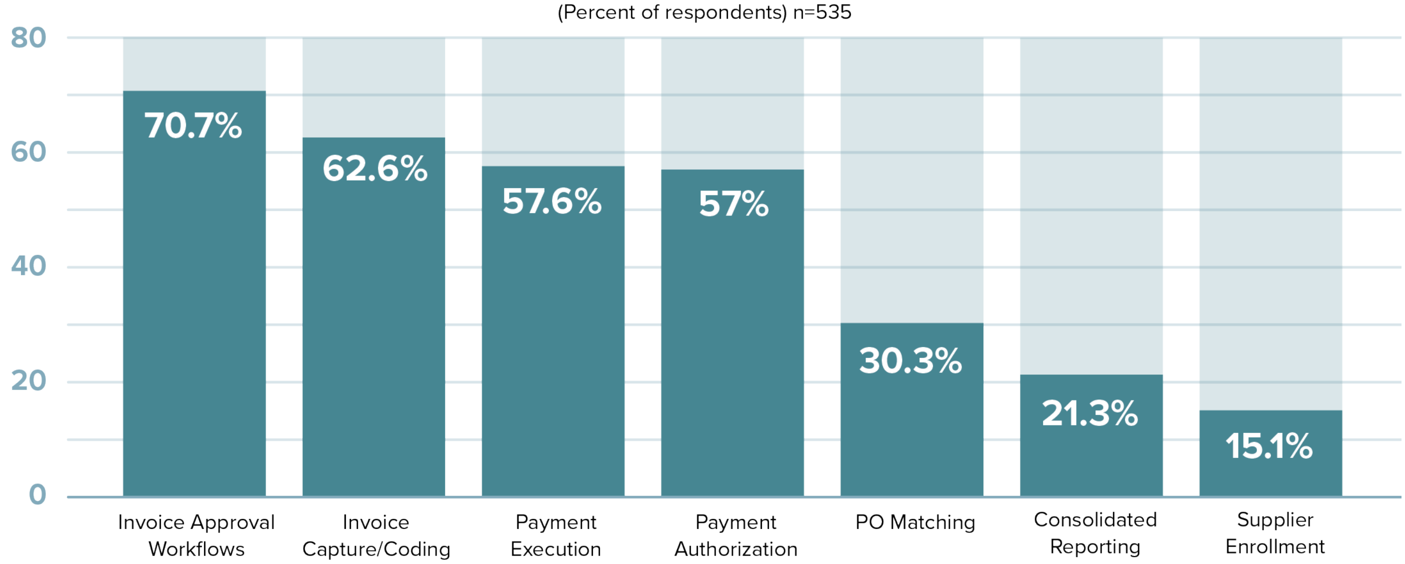
Only a small fraction of AP teams (16.2%) have fully automated their AP process as of this year.

Most finance leaders are dipping their toes into AP automation by partially automating processes; in fact, only a small fraction of AP teams have fully automated their AP process as of this year (16.2%). The good news is that end-to-end automation has significantly increased from last year, up from 9%, indicating that organizations are looking to close their AP automation gaps.

Of those in the earlier stages of their AP automation journey, most teams are focusing on automating their invoice approval workflows (70.7%), followed by invoice capture/coding (62.6%) and payment execution (57.6%). There is lower interest in Purchase Order (PO) Matching (30.3%), likely due to the fewer organizations that use POs.

Most Popular Automated AP Tasks for 2022

(Percent of respondents) n=535



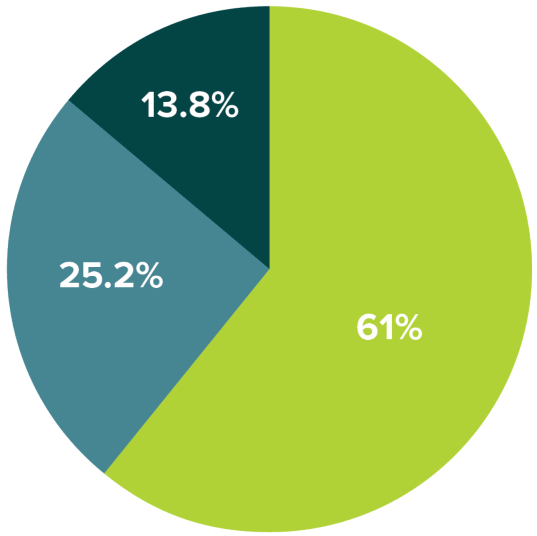
Automation enables AP to do more with less

Of those who have automated their AP, nearly two-thirds are now processing more invoices and payments with the same sized team (61%), alleviating some of the hiring challenges previously discussed.

Meanwhile other companies use their automation efficiencies to reallocate freed-up staff time to other projects (25.2%) which might include enhancing supplier relationships and analyzing data to optimize operations and payments. Meanwhile, a smaller number of companies reduced their team size after automating AP, and are now processing the same number of invoices and payments with fewer resources (13.8%).

AP Automation's Effect on AP Staffing in 2022

(Percentage distribution of respondents) n=528



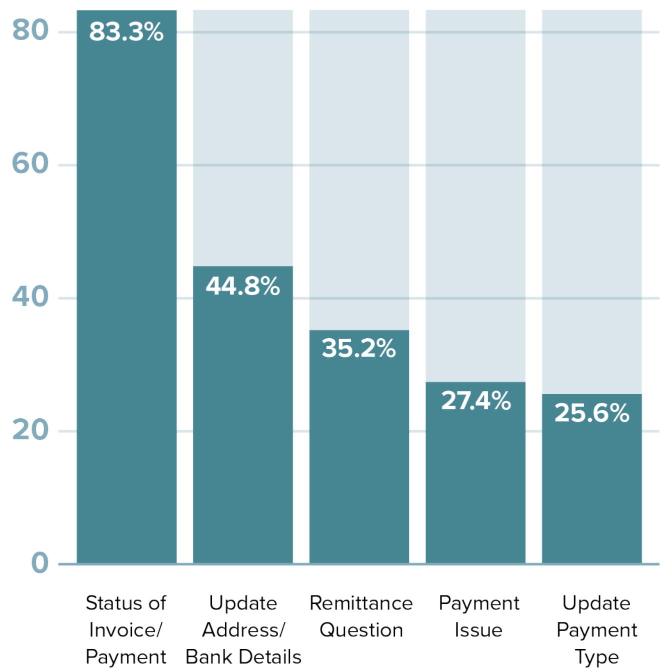
Vendor inquiries remain a point of frustration for buyers and suppliers

According to finance leaders, payment status is the leading reason for vendor inquiries (83.3%), followed by the need to update address/bank details (44.8%), remittance questions (35.2%), and payment issues.

By speeding up payments, automation can reduce the number of vendor inquiries related to payment status, although questions related to bank information or remittance issues can remain. As firms with AP automation start to process more invoices with the same sized team, they must determine how to manage a potential growing number of these inquiries that may come with it.

Most Common Supplier Inquiries for AP

(Percent of respondents) n=893



Many vendors noted that they are not pleased with the service they receive from AP when it comes to inquiries. Nearly half (44.4%) did not feel that AP responds to payment-related inquiries in a prompt and satisfactory manner. It is time-consuming and frustrating for vendors to have to chase responses, and it can ultimately strain critical vendor relationships. Self-service portals are one

44.4%

Nearly half (44.4%) of vendors did not feel that AP responds to payment-related inquiries in a prompt and satisfactory manner.

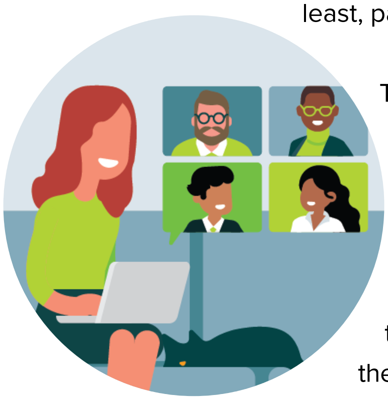
way to alleviate these problems by enabling vendors to check on the status of their invoices and payments. In addition, certain AP automation vendors like MineralTree also offer managed services, such as fielding incoming payment inquiries from suppliers. These services enable vendors to get prompt answers to their questions without bogging down their customers' AP teams.

Automation is key to supporting the evolving hybrid work environment

The pandemic continues to leave a long-term impact on the very nature of work. Work-from-home, once considered a temporary situation for many AP teams, appears to be here to stay. Work environments today are not much different than a year ago, except that remote workers have increased by about 2 percentage points, and hybrid workers have increased by about 5 percentage points – all at the expense of those working full-time in the office, which has decreased accordingly.

Interestingly, respondents' projections from last year of where we would be today underestimated the number of remote workers by 16 percentage points, and overestimated the number of employees working fully in the office by about the same amount.

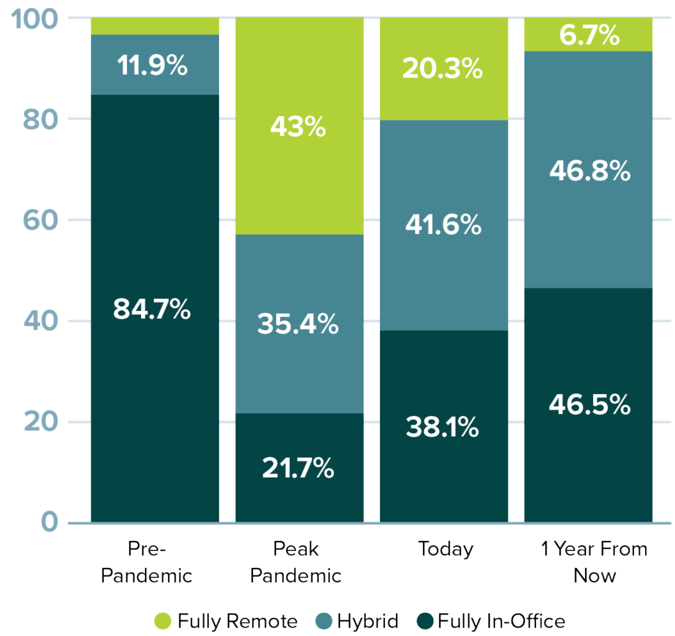
Both in 2021 and 2022, the largest number of workers are hybrid, and that trend is expected to continue. Finance leaders anticipate that nearly 55% of workers will work a hybrid model by next year. Combined with remote workers, more than 72% of AP staff will work (at least, partly) remotely by 2023.



These work trends create greater impetus for an automated workflow. With so many workers at home, it's no longer feasible for companies to pick up invoices in the office, manually route them for approval, or collect signatures and authorizations for payment. No matter where team members are located, they need to be able to view the status of invoices and payments, and keep the processing momentum moving forward in a timely manner.

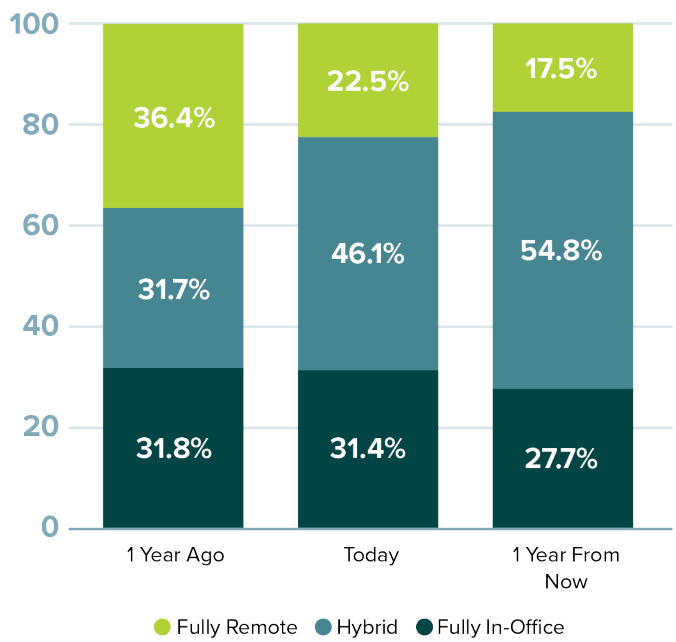
2021: How the AP Work Environment Has Evolved

(Percentage distribution of respondents) n=645



2022: How the AP Work Environment Has Evolved

(Percentage distribution of respondents) n=848



Electronic payments benefit all, but because of the blame game, it's not yet at a tipping point

When you consider that paper checks are a large contributor to the $510 billion estimated annual costs that North American companies spend on manual accounts payables (direct and indirect), it's no wonder that ePayments are growing in popularity among finance leaders. In contrast to checks, ePayments provide AP with more cost-effective and secure payment methods, along with increased visibility and control. But companies aren't the only ones to benefit from ePayments; vendors enjoy faster payment with rich remittance data that enables easier reconciliation.

The most popular methods of electronic payments include credit cards, virtual cards, and ACH and FX (foreign exchange). Despite ePayments' obvious advantages, both buyers and vendors face certain ePayment adoption obstacles. Yet, the need for speed continues to drive interest.

ePayments are popular with buyers and suppliers alike

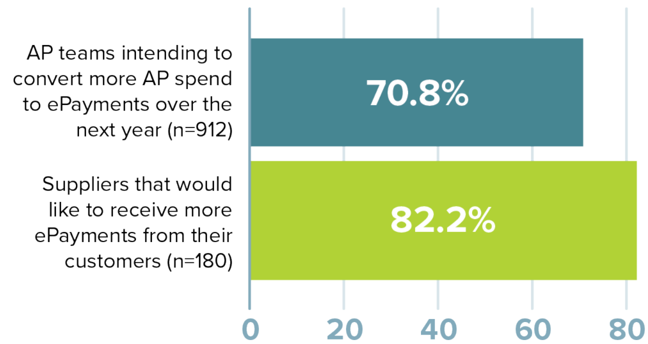
Given the benefits of ePayments, it makes sense that both buyers and suppliers want more payments to be made electronically. The number of AP teams that plan to shift more of their spend to ePayments increased from 64.6% in 2021 to 70.8% in 2022. Vendors are wholeheartedly on board with this digital payment strategy – more than 80% of them prefer getting paid electronically.

ePayments pay dividends for all parties

The top reasons finance leaders are making more ePayments are time savings (77.2%), more timely payments (63.1%), cost savings (56.5%) and increased security and fraud protection (48.9%). The time and cost savings are substantial. By eliminating the cost of paper and postage, as well as staff time to print, sign, stuff, and mail checks, organizations can save up to 80 percent of processing costs.

2022: ePayment Growth

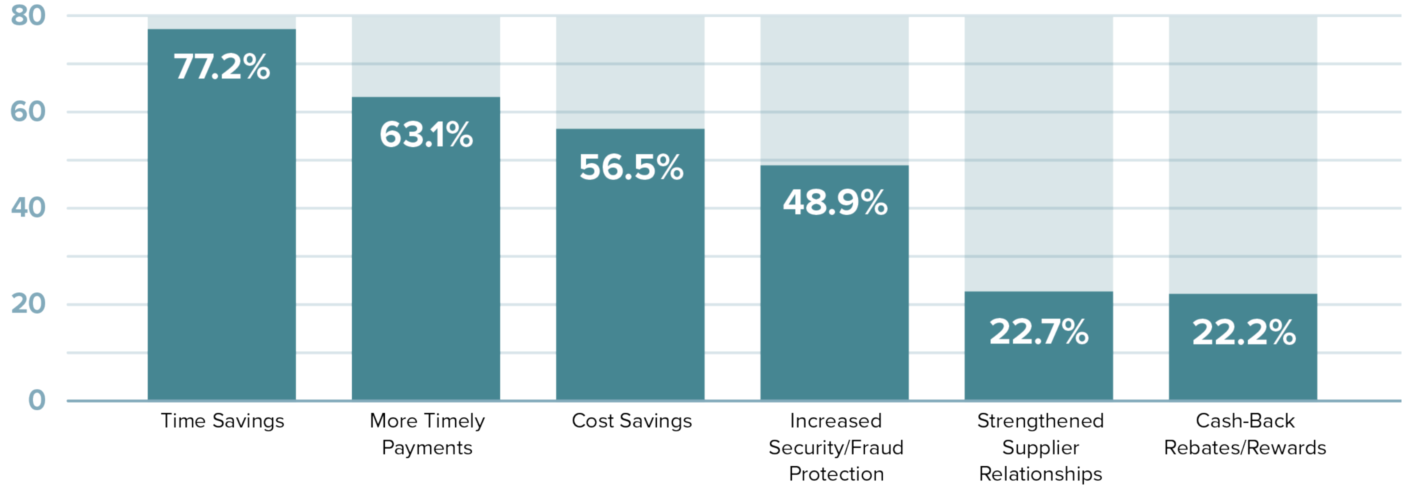
(Percentage distribution of respondents)



Payment fraud has become a major concern for organizations, and checks are the leading source of risk – accounting for 66% of companies impacted by fraud, according to the 2022 AFP® Payments Fraud and Control Report. This is by far the riskiest payment type, distantly followed by companies using ACH (37%), wire (32%), and corporate/commercial credit cards (26%). By contrast, a mere 3% of companies experienced fraud with virtual cards. These cards provide the strongest protection because they issue randomized account numbers that are authorized for a specified amount for one-time use only.

Buyer Benefits of Electronic Payments

(Percent of respondents) n=912



On the receiving end, vendors also realize key advantages by accepting ePayments. The top benefit vendors cited for electronic payment this year is timely payments (85%). This is likely because supply chain disruptions have severely impacted their cash flow, yet they need a steady infusion of income to produce goods, fulfill customer orders, and keep their business running smoothly. Following slightly behind, vendors favor ePayments for its processing efficiency (79.4%). Other reasons include improved remittance (43.9%), cost savings (39.4%), increased security and fraud protection (38.3%), and customer satisfaction (35%).

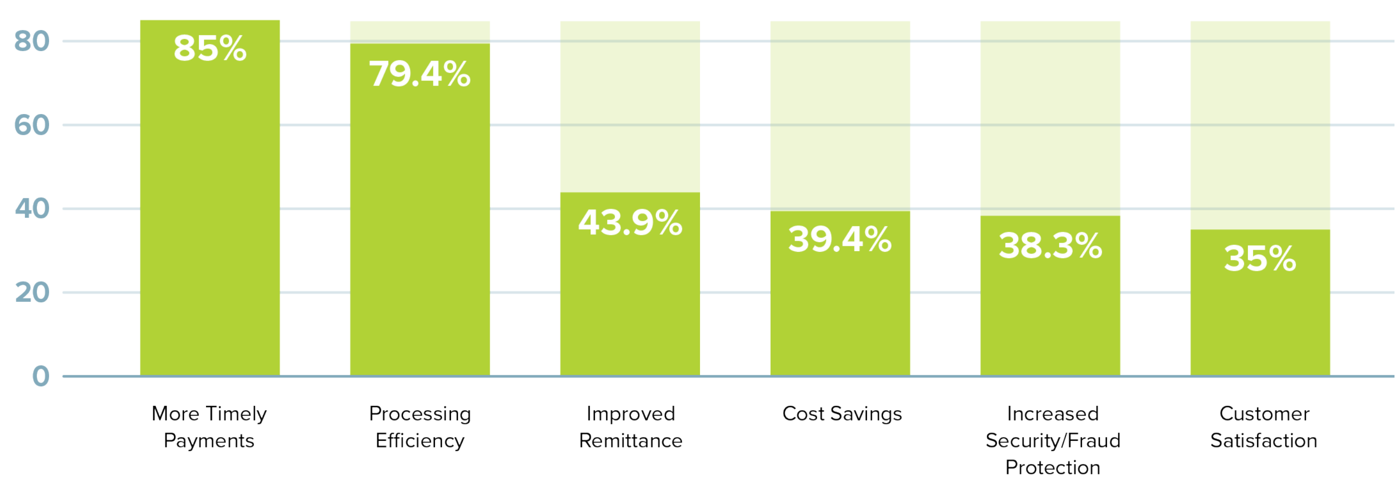
ePayment adoption is growing

ePayment adoption continues to grow as more finance leaders realize its value. In fact, every form of electronic payment method saw increased usage in 2022 while manual checks decreased 10 percentage points from the previous year.

Virtual cards show the most significant adoption over the past year, from 9.3% of companies increasing usage of these cards in 2021, to 37.5% this year. This rapid growth is likely due to the rebates that teams can

Supplier Benefits of Electronic Payments

(Percent of respondents) n=180



earn with virtual cards. Companies use these rebates to provide fast ROI, paying for the cost of their AP solutions, or, in some cases, even transforming AP from a cost center to a profit center.

After virtual cards, ACH saw the next largest ePayment gains (from 50.1% in 2021 to 66.6% in 2022). FX was third on the list, moving from 7.2% in 2021 to 19% this year, likely due to the need to source new overseas vendors to compensate for supply chain disruptions.

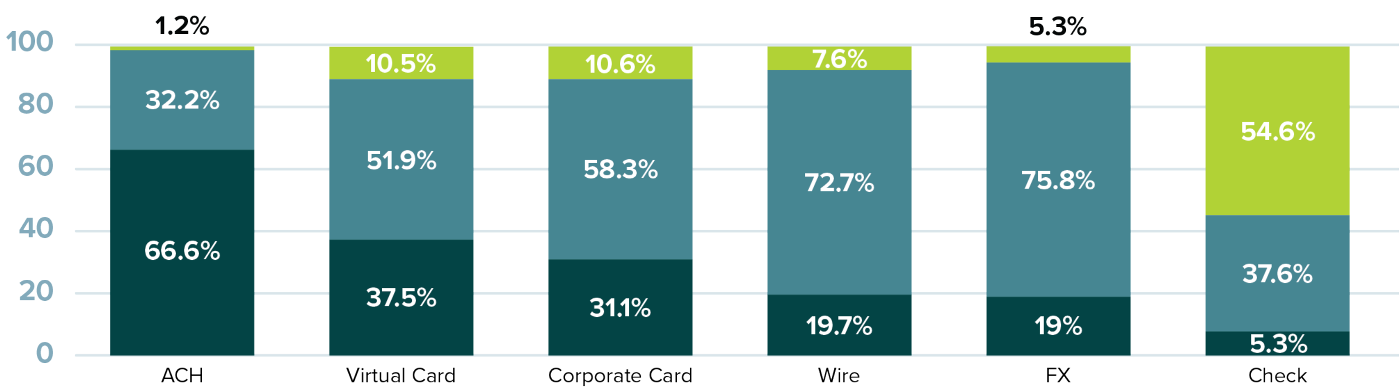
The Blame Game is blocking progress

While both buyers and vendors favor ePayments, they continue to name each other as the biggest obstacle to furthering ePayment adoption. This year, 56.5% of finance leaders cited vendor unwillingness to accept ePayments types as the top reason impeding its growth. Conversely, 62.8% of vendors identified the primary obstacle to ePayment as being customers not ready to move away from checks.

Other top ePayment concerns from AP center around their perception of the time and effort it takes to set up, including team capacity to contact/enroll vendors (40.4%). The irony is that finance leaders can easily eliminate this anticipated work by partnering with an AP automation provider that offers managed services. These services relieve AP from all the time-consuming administrative tasks involved in executing payments, onboarding vendors, responding to inquiries, and resolving any payment issues. They not only allow AP to work more efficiently and focus on finance priorities, but they also strengthen supplier relationships.

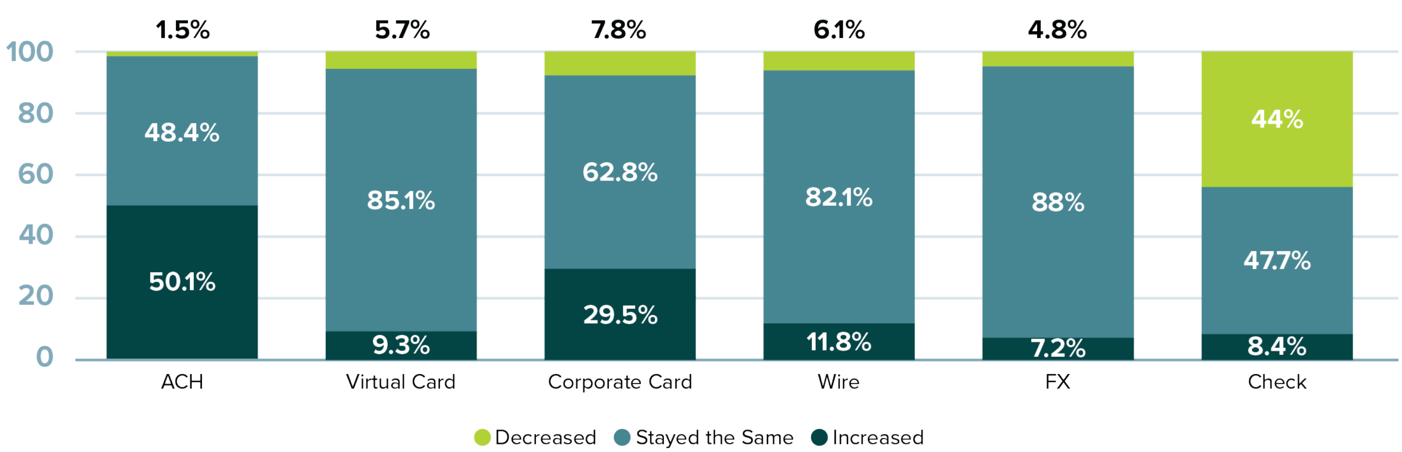
2022: Payment Method Usage

(Percentage distribution of respondents) n=912



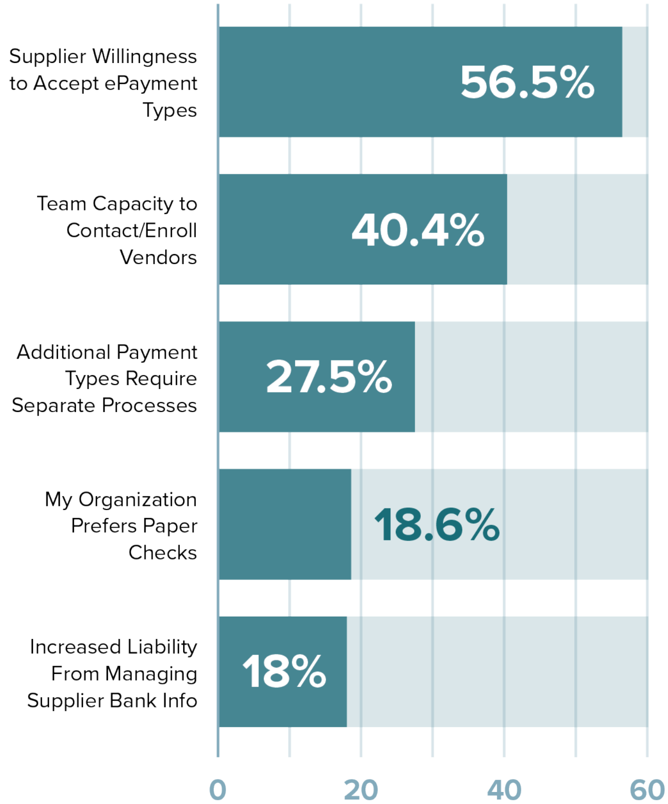
2021: Payment Method Usage

(Percentage distribution of respondents) n=669



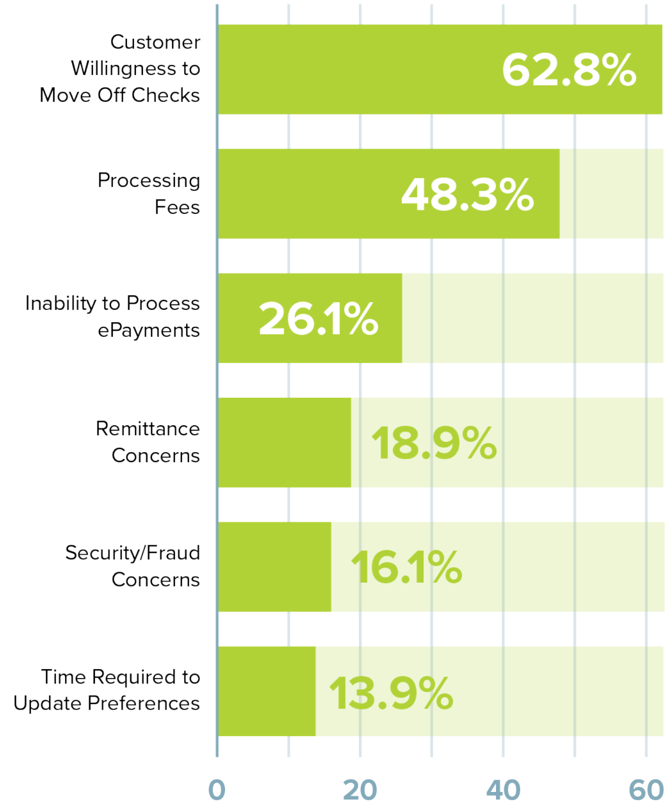
2022: Obstacles to Converting More AP Spend to Electronic Payments

(Percent of respondents) n=912



Supplier Obstacles to Electronic Payment Growth

(Percent of respondents) n=180



Finance leaders were also concerned about having to implement separate processes for additional payment types (27.5%). However, if they use the right AP automation solution, no additional processes or extra work is required.

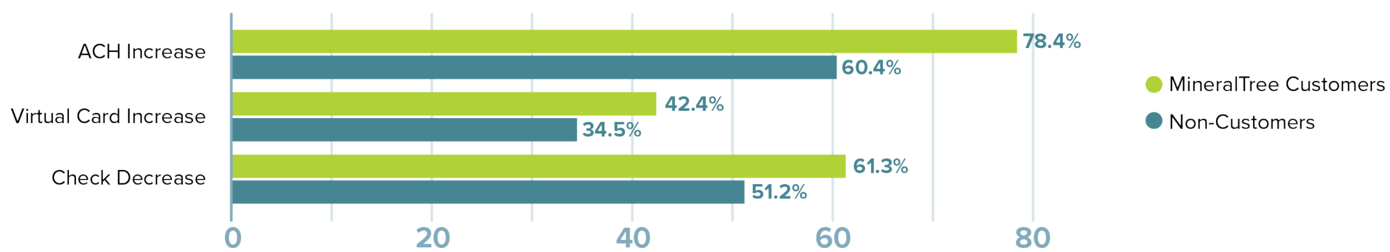
From the vendor perspective, processing fees is the second most common vendor obstacle for ePayments (48.3%). However, it's important to note that vendors' need for timely payments, ranked at 85%, (See page 4) greatly outweigh any concern about associated costs.

AP automation accelerates ePayments, but some obstacles remain

The depth of AP automation directly correlates to the value companies receive. The greater the degree of automation, the greater the efficiencies, cost-savings, visibility, control, and other benefits that finance leaders realize. For example, MineralTree customers report faster ePayment growth on average. By digitizing their payments, these firms are saving more money while

2022: Payment Usage Trends Amongst MineralTree Customers vs Non-Customers

(Percentage distribution of respondents) n=912



increasing their security and visibility. While automation effectively addresses processing inefficiencies, costs, and other issues, AP still must contend with time-consuming, vendor-related tasks involving ePayments.

Automation + managed services = a winning solution

By turning to an AP automation provider that offers managed services, AP teams can reduce their work and enjoy fast, easy ePayments processing. As an extension of the AP team, these automation vendors can offer continuous vendor enrollment, so finance leaders not only capture more ePayment spend today, but can continue to benefit as more vendors sign on in the future. The provider can also help the team maximize savings by optimizing the payment mix and encouraging virtual card adoption to increase rebates.

Managed services providers assume the responsibility for securely managing all ePayments information and processes – removing the burden from AP. Additionally, managed services providers handle all vendor inquiries, so the AP team doesn't have to – removing a major time sink from operations. This gives AP more time to focus on core functions and identify strategic payment opportunities. At the same time, because managed services providers are laser-focused on vendor services, they can respond promptly to inquiries, helping to increase vendor satisfaction and improve relationships.

Managed Payment Services, an Extension of Your Team

Continuous Vendor Enrollment

Performs continuous virtual card and ACH enrollment

Maximize Savings & Rebates

Optimizes your payment mix to maximize savings, security, and rebates

Enhance Vendor Relationships

Fields payment inquiries from vendors. providing prompt service

Where do you go from here?

In 2022, AP teams face an ever-growing list of burdens: supply chain disruptions, work-from-home and hiring challenges, and often, an increasing volume of invoices and vendor inquiries. The good news is that automation and managed services can play a huge role in addressing these issues. Insights from the report uncover several ways AP teams can increase operational excellence to overcome barriers and gain maximum benefits, including:

Improve vendor satisfaction with faster payments

Keeping vendors happy is more essential than ever, and their top priority is fast payment. Yet, market and organizational challenges are making it difficult for AP to process and pay invoices quickly. This is something that automation can easily fix.

Automate AP for competitive advantage. Multiply your value through end-to-end digitization

Finance leaders are prioritizing automation to handle current and future invoice volumes within their staffing constraints and across hybrid work environments. Begin the journey to start realizing efficiencies, savings, and other benefits, or if partially automated, gain synergies and significantly increase your value through end-to-end digitization across invoice to pay. You will gain visibility to maximize spend and cash management, as well as greater efficiencies, accuracy, and protection against fraud.

Increase ePayments for mutual benefit

ePayments give AP teams greater control over their spend, while also saving time and money. At the same time, your vendors can boost their cash flow thanks to more timely payments, as well as gain process efficiencies. Yet, the time-consuming tasks of contacting and managing vendors are among the obstacles standing in the way of progress. Companies can offload these tasks by implementing managed services.

Adopt managed services to overcome lingering ePayment obstacles, and take vendor relationships to the next level

Vendor inquiries create disruptions and more work for overtaxed AP teams, often resulting in a slow response to vendor inquiries. While automation helps to reduce the interruptions, managed services ensure all inquiries are handled in a timely manner, and take vendor service to the next level. By handling all the details of vendor relations in ePayments, managed services enable AP to benefit from continuous vendor enrollment, greater savings and rebates, increased security, and improved vendor relations from quicker, effective service.

AP automation, combined with managed services, is a no-brainer for AP teams trying to do more with less, and stay afloat amid supply chain volatility. It handles common AP headaches for overtaxed, often understaffed AP teams while elevating productivity, visibility, control, savings – and even earnings.

End-to-end AP automation is a strategic investment with immediate and long-term returns; it enables teams to absorb a higher volume of invoices, effectively manage growth, and operate more strategically.

Methodology & Demographics

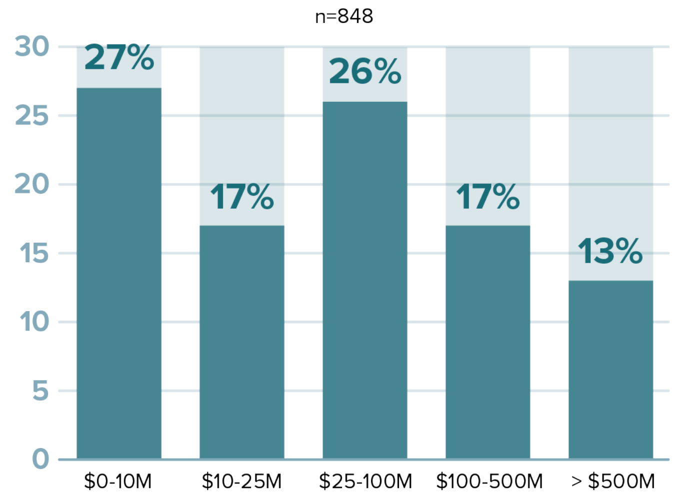
For the seventh consecutive year, MineralTree surveyed a wide range of finance professionals involved in AP to analyze their current state of operations, challenges, and outlook for the future. For the first year ever, our State of AP report also includes responses from suppliers and vendors.

The 2022 State of AP Survey focuses on the long-term impact of the pandemic on finance, the progress organizations have made with digital payments and end-to-end AP automation, and their digitization priorities. This report, which is a snapshot of where the industry is at a specific point of time, can serve as a benchmark, providing the opportunity to compare your practices and digitization plans to the survey group.

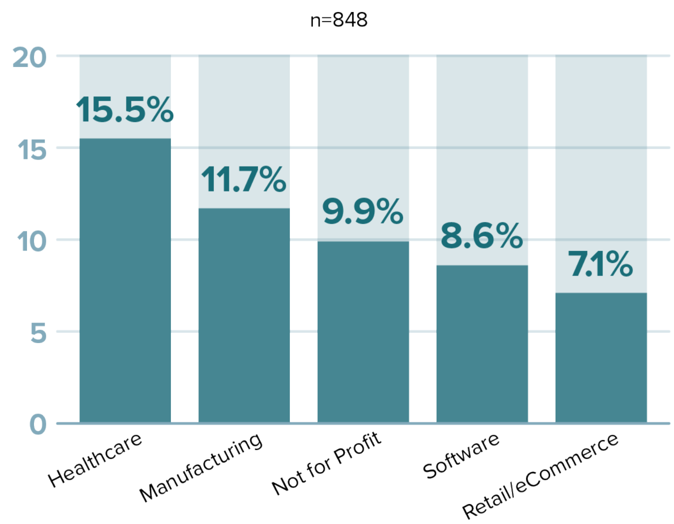
In preparing the report, we surveyed 912 finance professionals involved in the AP function, along with 180 employees at supplier organizations between February and April 2022. The respondents represented a mix of industries, company sizes, and job levels. The annual revenue of these organizations ranged from under $1 million to more than $1 billion, with fewer at either end of the spectrum and the majority at the $10 -$100 million level. The number of supplier payments for these companies ranged from 1 to more than 2,000 per month, with the majority in the 101-250 range. The job level of respondents varied, with the greatest number holding manager positions, followed by individual contributors, executives, then directors.

Survey responses were collected anonymously online via SurveyMonkey.

% of Respondents vs. Annual Revenue



% of Respondents vs. Top Industries



Respondent Job Level