



# **How AP Automation Has Reached a Tipping Point in the Middle-Market**

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Phone: 617-299-3399

Email: [info@mineraltree.com](mailto:info@mineraltree.com)

# How AP Automation Has Reached a Tipping Point in the Middle-Market

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**Ardent Partners**

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**Analysts:**

Bob Cohen

Philip Bartolini

**Contents:**

- 1 Cash is King
- 2 Defining the AP Process
- 2 How Did AP Get Here?
- 4 Technology Advantage
- 4 Recommendations
- 6 Conclusion
- 7 Appendix

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*As the saying goes, “Growth is good, but rapid growth is better.” And, for businesses that experience fast growth, there are two key differences between long-term success and failure: (1) how well businesses manage cash flow, and (2) the infrastructure they have in place to support their growth. Fast-growing middle-market businesses need a robust operational infrastructure to help support and control that growth and ensure that their key business functions and processes are working and performing well. Business leaders in the middle-market understand these two factors and have increasingly sought process automation solutions to scale operations, drive productivity, and save money. In the finance realm, Accounts Payable (“AP”) is an opportunity to gain great leverage via digital transformation and leave behind the costs associated with paper-based, manual, disjointed, and inefficient processes. This report looks at the key drivers that have enabled AP Automation solutions (or ePayables solutions as Ardent refers to them) to reach a tipping point of adoption in the middle-market.*

## Cash is King

The AP process, which manages how invoices are received, processed, and paid, presents a significant opportunity for middle-market businesses. The AP function plays a key role in the management of cash, which is a crucial part of running any business, but middle-market organizations in particular. An AP process that is efficient and can provide visibility into current and future liabilities is a great asset to cash-conscious businesses. Unfortunately, the AP process within the majority of businesses is still largely manual and paper-based, which results in a general lack of visibility, gross inefficiency, and costly invoice/payment processing. This puts these companies at a disadvantage to those that have automated AP. In order for growing businesses to prosper in today’s hyper-competitive business environment, every advantage counts. With more AP automation solutions available in the market than ever before, the automation of key operational processes such as AP is now an achievable goal, and one that has become a critical part of doing business.

## Defining the AP Process

In order to help businesses evaluate their processes, Ardent Partners developed the ePayables Framework (Figure 1) to help middle-market companies divide the AP process into smaller and more manageable segments. Ardent Partners uses the term ePayables to describe the solutions/services that automate all or part of the AP process. With this framework, middle-market AP and finance leaders can establish a clear view into the current state of a business' operations, and help other executives understand "what is happening today?" The ePayables Framework can also be used to help clearly define new AP processes – "what should happen tomorrow?" By 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, AP and finance leaders will be better able to set standard processes and work to develop best practices. The framework organizes the AP process into three major phases:

1. **Receive** – how a business receives invoices
2. **Process** – how a business reviews, validates, and approves the invoices
3. **Pay** – how a business schedules and makes payments

**Figure 1: Ardent Partners' ePayables Framework™**



## How Did AP Get Here?

Today, mid-sized organizations have reached a tipping point where the needs and expectations of AP are far outstripping their current capabilities, processes, and technologies. The typical AP group within the middle-market is well aware that its invoice and payment processing takes too

long and costs too much. According to Ardent Partners' research, the average cost to process a single invoice in 2018 was **\$11.57**, and it took, on average, **8.6 days** for that invoice to be processed. These figures are too high for growing businesses that need to optimize cash flow and manage expenses. Costs and time to process invoices only compound as businesses continue to grow and interact with more and more suppliers. Middle-market companies without AP automation tools in place face a difficult challenge as they drown in paper invoices with no means to speed up processing times. A lengthy invoice-processing time has consequences, such as missed early-payment discounts, late payments, supplier inquiries (which can be unnecessarily time consuming), and outdated accruals resulting in inaccurate financial information. Unfortunately, not much will change unless the manner in which both invoices and payments are processed improves.

**\$11.57**

*The average cost to process a single invoice in 2018.*

Traditionally, technology applications that enabled automation of business processes, such as AP, and allowed for higher levels of efficiency and productivity were designed for the large enterprise. Until recently, software had to be installed on-premises and required expensive hardware and heavy internal IT resources upfront and through its service life, making it a costly and lengthy investment. But, that operating model has become a thing of the past. The technology landscape has shifted drastically, due largely to the development of Software-as-a-Service (SaaS) solutions that are delivered in the Cloud and hosted, maintained,

**8.6 Days**

*The average time it takes for an invoice to be processed*

enhanced, managed, and upgraded by the solution provider. The emergence of cloud-based solutions has allowed middle-market companies to reap the benefits of automation across various functional processes, including AP, enabling them to run more efficient and effective businesses.

What worked when an organization was smaller is probably no longer sufficient to get the job done today, as its needs, goals, requirements, and skillsets have invariably changed over time. For years, AP organizations lagged behind other departments in the adoption of new technology and the ramifications of this has

become increasingly apparent. Today, as businesses become more technology savvy, those that have not considered utilizing cloud-based solutions in key areas of the business are at risk of getting left behind.

Unfortunately, for many AP departments, they are often not first in line when it comes to securing budgetary resources for technology upgrades. But, advocating for technology adoption does not require an “all-or-nothing” approach to succeed. Accounts Payable leaders can identify the solutions that can achieve both short- and long-term business goals. While formulating a business case for technology adoption, AP and Finance leaders need to remember that the business unit’s digital goals and objectives should not only address its own immediate needs, but also those of the larger organization. These leaders need to take a holistic view of the business, be mindful of their role within it, and look for more collaboration opportunities between departments when considering how technology deployment will better enable AP and Finance to support the company’s current and future objectives while also providing more value to key stakeholders. Showing the strategic value that AP adds to the business can make securing future investments in technology and people easier.

### Technology Advantage

Cash is the lifeblood of all businesses. For the middle-market businesses that need every dollar optimized towards the expansion and advancement of their businesses, process automation tools and digital transformation initiatives that have short payback periods and a high impact on operating costs are popular investments. For more than a decade, Ardent Partners has been researching and discussing how automation of the accounts payable function can help organizations improve their bottom line and facilitate growth.

Technology is a key component of forward-looking AP organizations. Automation helps create scalable, repeatable, and more efficient processes, which drives down costs and speeds up the entire supplier invoice and payment processes. Automation also creates greater visibility and more opportunities for finance and AP departments to think more strategically about cash management and the associated supplier payment process.

For many businesses, supplier payments are one of the largest (if not the largest) sources of cash outflows (non-payroll). Automation technologies offer a unique opportunity to drive greater business value while simultaneously improving supplier relationships. For instance, by integrating virtual card technology into the payment process, companies can improve control of cash flow, reduce payment fraud risk, and gain access to better, and more timely, payment data.

**87%**

*AP functions actively  
managing or supporting  
fraud prevention*

Accounts Payable sits in an ideal position to identify and flag potential instances of invoice and/or vendor payment fraud. In 2018, 87% of AP functions manage or support fraud prevention efforts, based on Ardent's State of ePayables 2018 market research study. Accounts Payable staff, via AP automation solutions, can detect

possible fraud that is hidden amongst the steady stream of supplier transactions processed each month. Supplier verification, transaction patterns, duplicate payment checking, rounded invoice figures, etc. all represent potential fraudulent activity and fall under the standard AP department's purview. Accounts Payable's relationship with financial and risk compliance has grown as well. AP, leveraging automation solutions, is the perfect ally for compliance and risk management teams, and can assist in enforcing policies, identifying potential red flags, and escalating issues internally.

The adoption of AP cloud solutions in the middle-market has reached a tipping point and company size is no longer an acceptable excuse for below-average performance in any area of operation. Middle-market businesses that fail to leverage AP automation solutions risk being left behind by competitors that can meet the demands and challenges associated with growth and scalability.

## Recommendations

When it comes to selecting the right solution to automate the AP or finance function, there are certain factors that are going to be more important for middle-market businesses than larger ones. For starters, building a successful AP department for today and the future requires having the right technology and infrastructure in place. The following are key factors to consider during the solution-evaluation and selection process, and will also help AP and Finance leaders to differentiate between various solutions.

- ▶ **Deployment cost and time** – Middle-market companies simply do not have the time or resources needed to manage a long and/or complex technology deployment. AP automation solutions that offer shorter deployment times will allow AP teams to get up and running faster, reap benefits sooner, and allow AP to focus on more strategic initiatives.
- ▶ **Identify legacy platforms that can be enhanced or replaced** – While some AP units do possess some basic level of automation, it is not enough to match other internal functions in efficiency and speed. Businesses should plan to identify legacy platforms that require upgrades and build a long-term business case to improve or replace them.

- ▶ **Automate the “Pay” Phase** – Paper checks are notoriously inefficient and time-consuming – and significantly more expensive than electronic payments (ePayments). The ability to make electronic payments will further reduce processing costs, while adding a level of precision and controls over vendor payments. It is significantly more valuable for an accounting/finance resource to spend time focusing on a key area like improving cash management as opposed to processing tedious check payments.
- ▶ **Focus on Cash Management** – In recent times, cash management has become a prized source of value for contemporary business. Forward-thinking companies have already recognized the central role that AP can play in managing enterprise cash more effectively. Having access to timely and accurate AP data can have a positive impact on cash management. It can mean the difference between a business that operates with stable and predictable financials, or one that operates with unstable and unpredictable financials.

## Conclusion

Gone are the days when a growing company had to spend years developing back-office resources, processes, and customized systems before it could reach a scale where automation was justified. Today, the picture is very different: middle-market companies can establish a hyper-efficient AP department from the start and then scale it with modest incremental investments as the business continues to grow at a rapid pace.

The middle-market has reached a tipping point where demand has outstripped capacity, and the opportunities that digital transformation can provide are too great to be ignored. Middle-market firms using cloud-based AP automation solutions are able to establish a robust operational infrastructure, reduce processing costs, and gain visibility into cash positions and liabilities. The result is a more focused and efficient operation that can operate more competitively and accelerate into the future.



# Appendix

## About the Authors



**Bob Cohen is a Research Director and Vice President of Marketing at Ardent Partners.** A seasoned professional with more than 15 years of experience helping businesses transform their Procure-to-Pay operations, Bob is the leading analyst in the ePayables space. Prior to joining Ardent, Bob spent 12 years working as a Vice President at Basware, where he helped establish the firm's U.S. presence as a major player in the AP automation space. In his career, Bob has helped hundreds of AP and P2P teams achieve Best-in-Class performance via their use of ePayables, P2P, and Business Network solutions. Cohen has also worked at American Express where he helped the commercial card giant better align its products and services with a continually evolving market.

Bob leads Ardent's ePayables research practice and regularly publishes insights and articles on Payables Place ([www.payablesplace.com](http://www.payablesplace.com)), Ardent's site focused on AP Innovation and Automation. Bob holds a B.A. in Marketing from Bryant University and an M.B.A in Finance from The University of Connecticut. Follow Bob on Twitter [@bobcohen\\_ardent](https://twitter.com/bobcohen_ardent) and Ardent Partners [@ePayablesArdent](https://twitter.com/ePayablesArdent).



**Philip Bartolini is a Research Associate at Ardent Partners** and currently contributes research to the firm's ePayables research practice, including Accounts Payable automation, financial management, cash management, and supply chain finance. Phil's work includes the intersection of people, processes, strategies, and technologies within financial operations, as well the converging, collaborative value that can be generated by procurement and finance. Since joining Ardent in early 2014, Philip has led or contributed his expertise to research studies on eInvoicing, ePayments/payment management, business networks, and extended financial value chain platforms (such as supply chain finance and dynamic discounting). He earned a B.A. in Political Science from Hobart College, and can be reached at [pbartolini@ardentpartners.com](mailto:pbartolini@ardentpartners.com).

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