4TH ANNUAL RESEARCH REPORT

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EXECUTIVE SUMMARY

For the fourth consecutive year, we surveyed a wide range of finance professionals involved in the accounts payable process to put together our 2019 State of Accounts Payable. The research results have shown that accounts payable is now in the midst of a major transformation. Within this report, we reveal trends happening in the accounts payable field, including:

- Shifts in how businesses are paying other businesses
- Movement toward automated processes
- Escalation of fraud and its impacts across businesses of all sizes

While these trends are unfolding across industries, our research also indicates that not all seniority levels involved in the vendor payment process are viewing them the same way.

KEY FINDINGS

Paper checks continue to dominate vendor payments:

50% Nearly half of all businesses are are relying on paper checks for **50% or more of all vendor payments.**

Electronic payment methods are on the rise:

+17%
+26% The percentage of businesses paying with ACH transfers and credit cards increased by 17% and 26%, respectively. However, they still account for less than 25% of payments at most companies.

Automation is picking up traction:

19% While 24% of respondents indicated that their company is already automating AP, another **19% indicated plans to automate within one year.**

Fraud is happening with regularity in the middle market too:

60% While large enterprises represent the top targets for fraudsters, **nearly 60% of middle-market businesses in this survey also experienced fraud attempts against** their organization.

Finance professionals continue to underestimate the cost of accounts payable:

4th year For the fourth consecutive year, finance professionals underestimated the cost of processing and paying invoices.

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HOW TO READ THIS REPORT

As you read the 2019 State of Accounts Payable report, you can benchmark your team's processes, and your perception of the accounts payable industry as a whole. Some key questions to consider include:

- What percentage of my payments are currently made electronically?
- What is my team's standard operating procedure for entering invoices into our ERP?
- What is my team's primary means for collecting invoice approvals?
- At which points in my accounts payable process is my company exposed to fraud?
- How does my team file away documents for future access during audits?

SURVEY METHODOLOGY

For the fourth consecutive year, we have put together a report that analyzes and evaluates the current state of accounts payable operations from the perspective of 1,451 employees spanning all seniority levels working at companies of all revenue ranges within the middle market. The method of collection was a 16-question survey requesting information about existing accounts payable processes and respondent attitudes toward those processes. Methods of analysis included the evaluation of responses as one whole, as well as across specific demographic categories. Results of this report indicate major shifts in comparison to research collected last year, and the emergence of several key trends shaping the way businesses pay other businesses.

WHO ARE THE RESPONDENTS?

1,451 participants

A total of 1,451 participants took this survey. Among them, 33% were Managers, 18% were Directors, 27% were Executives, and 22% were Individual Contributors or Other. These respondents represented the middle market with half of all respondents working in companies that earn between $5 million and $250 million annually, and 40% of respondents paying between 100 and 500 invoices on a monthly basis. More than a quarter of the respondents work in companies that pay more than 500 invoices a month.

ELECTRONIC PAYMENTS ARE GAINING TRACTION AS BUSINESSES AUTOMATE

Survey findings show that checks are still the dominant payment method among middle-market companies, with nearly half of all respondents indicating that their companies are processing 50% or more of their vendor payments with paper.

However, the extent to which businesses are relying on checks appears to be diminishing, as the proportion of businesses using checks for 75% or more of their vendor payments dropped by 31 percentage points from the previous year.

Meanwhile, even though electronic payments still represent a small portion of vendor payments, survey results indicate that they are starting to gain traction. In 2018, ACH transfers and credit card payments saw respective increases of 26 and 17 percentage points year over year.

Percentage of Businesses Using Electronic Payments for 1-25% of B2B Payments

Businesses using
ACH transfers

Businesses using
Credit Cards

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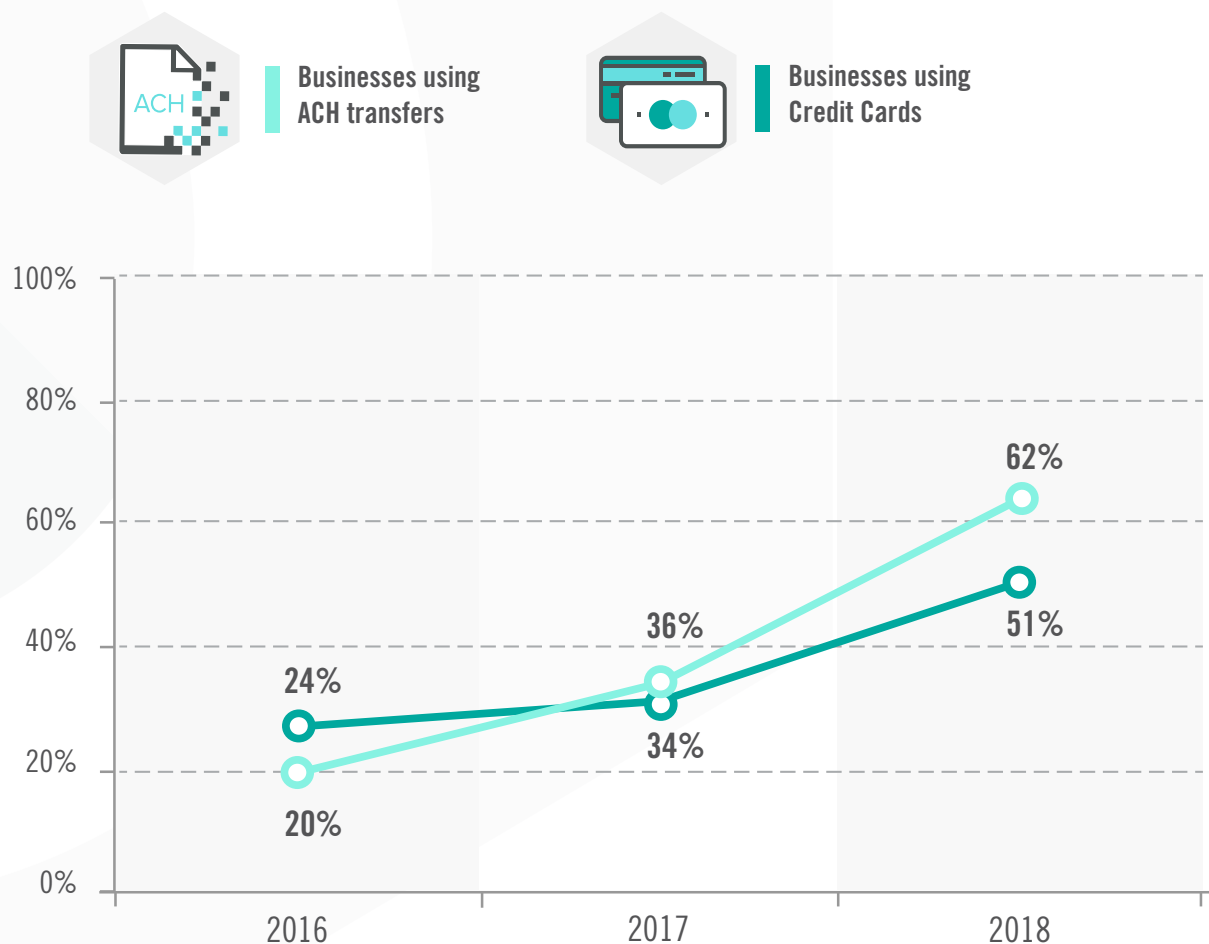
WHY ELECTRONIC PAYMENTS?

This shift toward electronic payments could be explained in a few different ways:

Improved security - While paper checks expose important financial information to anybody who can get their hands on one, electronic payments are encrypted to protect critical data.

Greater simplicity - Printing checks, chasing people down for signatures, stuffing them into envelopes and mailing are all cumbersome processes that go away with electronic payments.

Cost savings - While the hard costs that go into check payments can run as high as $5 per check, ACH transfers cost a fraction of that, and electronic credit cards payments will actually earn you rebates and rewards.

AUTOMATION POSITIONED AS A KEY ENABLER FOR ELECTRONIC PAYMENTS

Among all respondents, those that indicated that they automated their accounts payable process reported an even bigger step into the world of electronic payments.

While 53% of companies that are not automating make more than half of their payments with paper checks, only 33% that do automate pay with checks as often.

Almost 50% of respondents that automate are originating more than a quarter of payments as ACH transfers. Meanwhile, only 30% of respondents that do not automate are leveraging ACH transfers as often.

LARGER BUSINESSES PAY BY CARD MORE OFTEN

Respondents at larger companies reported paying with credit cards at a higher frequency than respondents at smaller companies. While businesses making credit card payments also earn cash-back rebates, it makes sense that larger businesses are more motivated to pay by card and capitalize on a higher rebate that corresponds with a higher volume of spend.

Percentage of Businesses Utilizing Commercial Cards for 1-25% of Payments
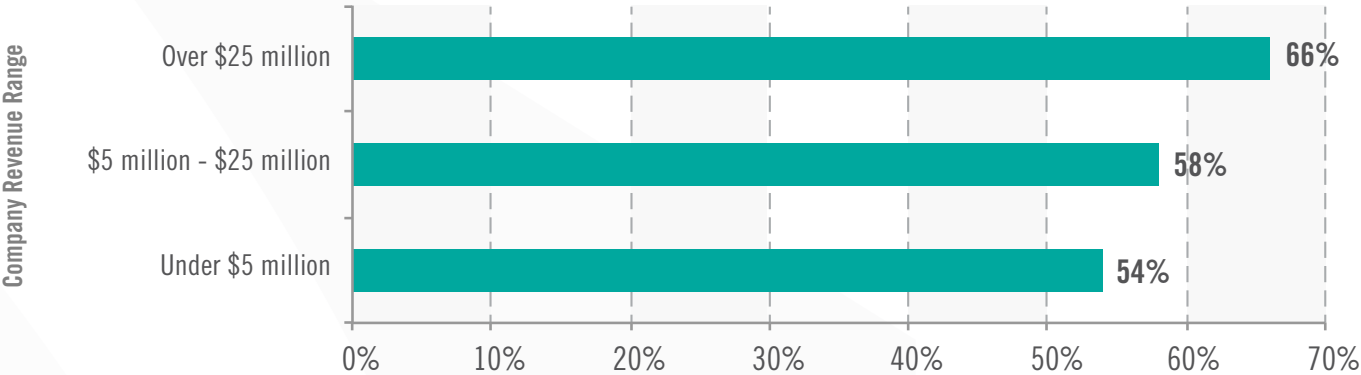
SMALLER BUSINESSES ARE MISSING OPPORTUNITIES TO PAY WITH CREDIT CARDS

While the lack of card acceptance by vendors was a key deterrent of card usage for all businesses, other concerns prominently cited for card payments among the bracket of small businesses included fraud risk and company policy.

What is the reason you do not use commercial credit cards more often for vendor payments?
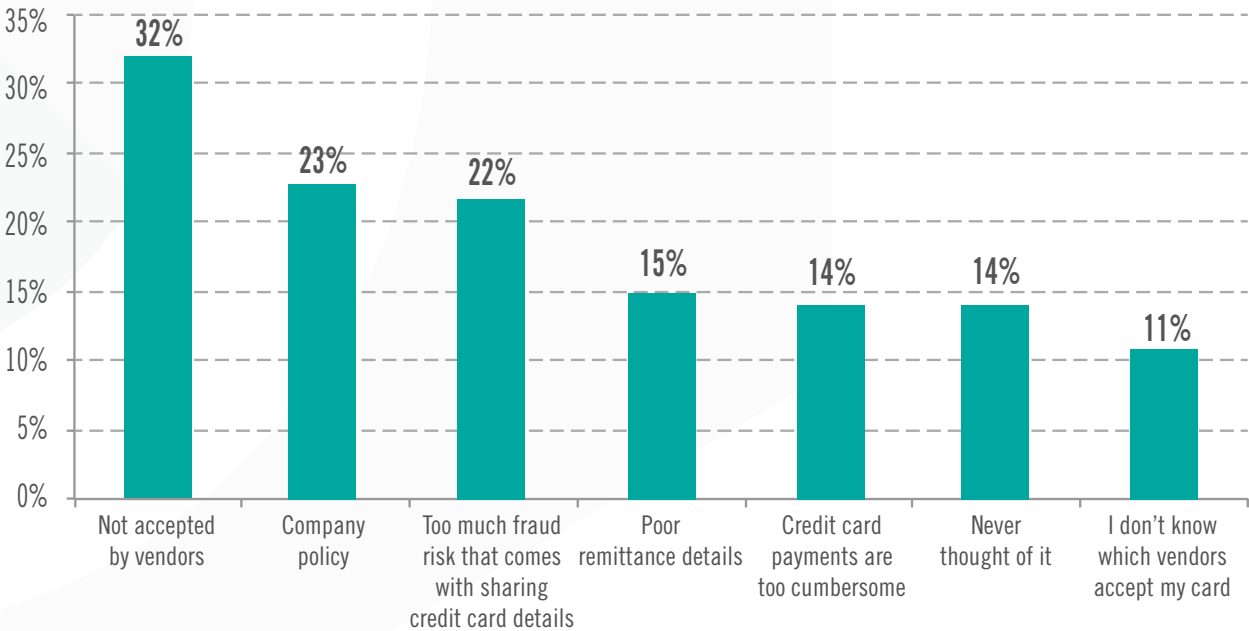
These reasons demonstrate a fundamental lack of understanding around the nature of credit card payments in today's world of B2B payments. Virtual card technology has turned card payments into the most secure payment method throug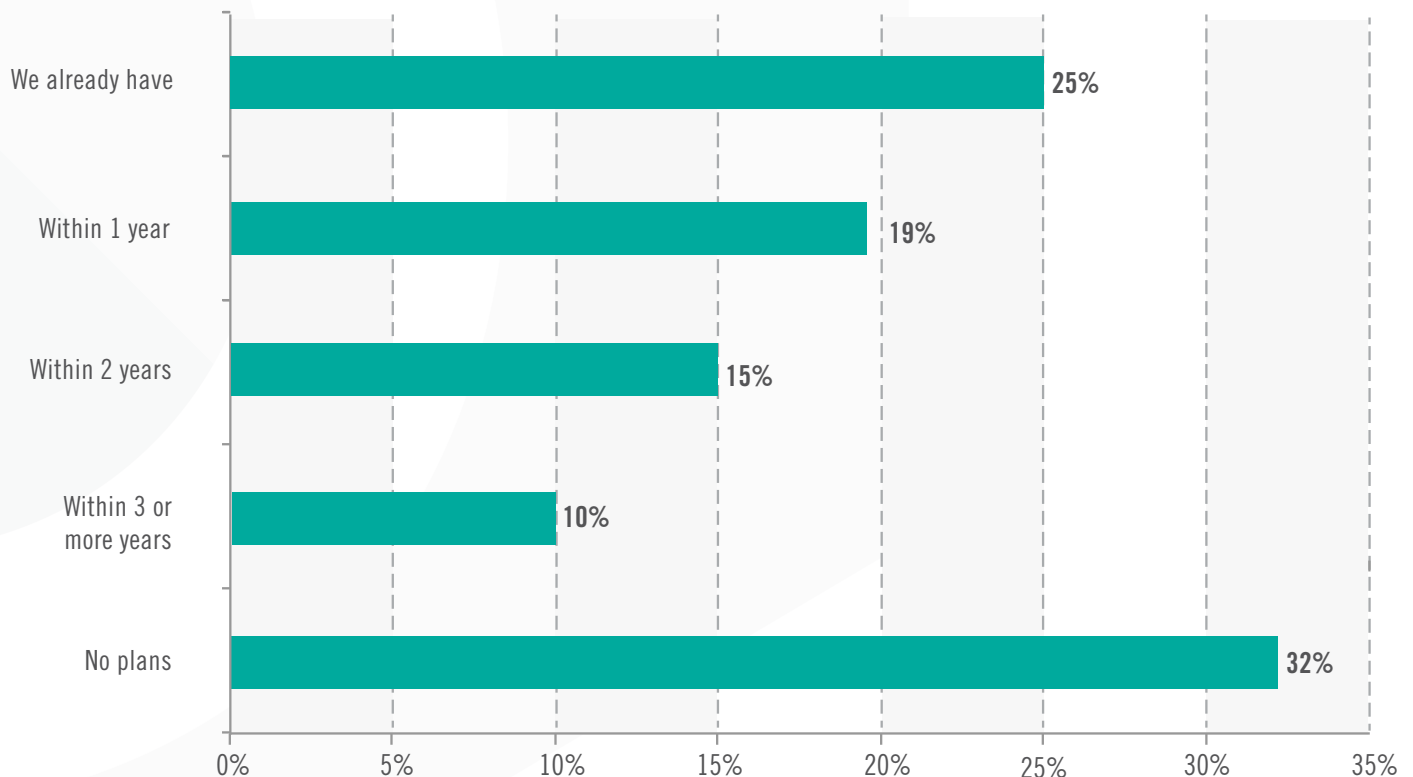h the use of tokenization, which has eliminated the need to share underlying credit card information with vendors. All major card players have invested in this technology to better serve their customers in the process of making B2B payments, and accessibility to them should only increase for middle-market businesses moving forward.

AUTOMATION IS GAINING TRACTION

19%

This year's research shows automation is now being adopted in the middle market, as 24% of respondents indicated that their company is already automating AP, and another 19% indicated plans to automate within one year.

When do you plan to transition to AP automation?

We already have	25%
Within 1 year	19%
Within 2 years	15%
Within 3 or more years	10%
No plans	32%

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LARGER COMPANIES ARE ADOPTING MORE RAPIDLY

50% respondents

Adoption of AP Automation has been driven primarily by larger businesses, as 50% of respondents from our largest annual revenue range segment indicated that they have already adopted or plan to within one year.

When do you plan to implement automated accounts payable?

Company Revenue Range

- Under $5 million
- $5 million - $25 million
- Over $25 million

Chart axis: 60%, 50%, 40%, 30%, 20%, 10%, 0%

We already have or plan to within 1 year — Within 2 years — Within 3 or more years

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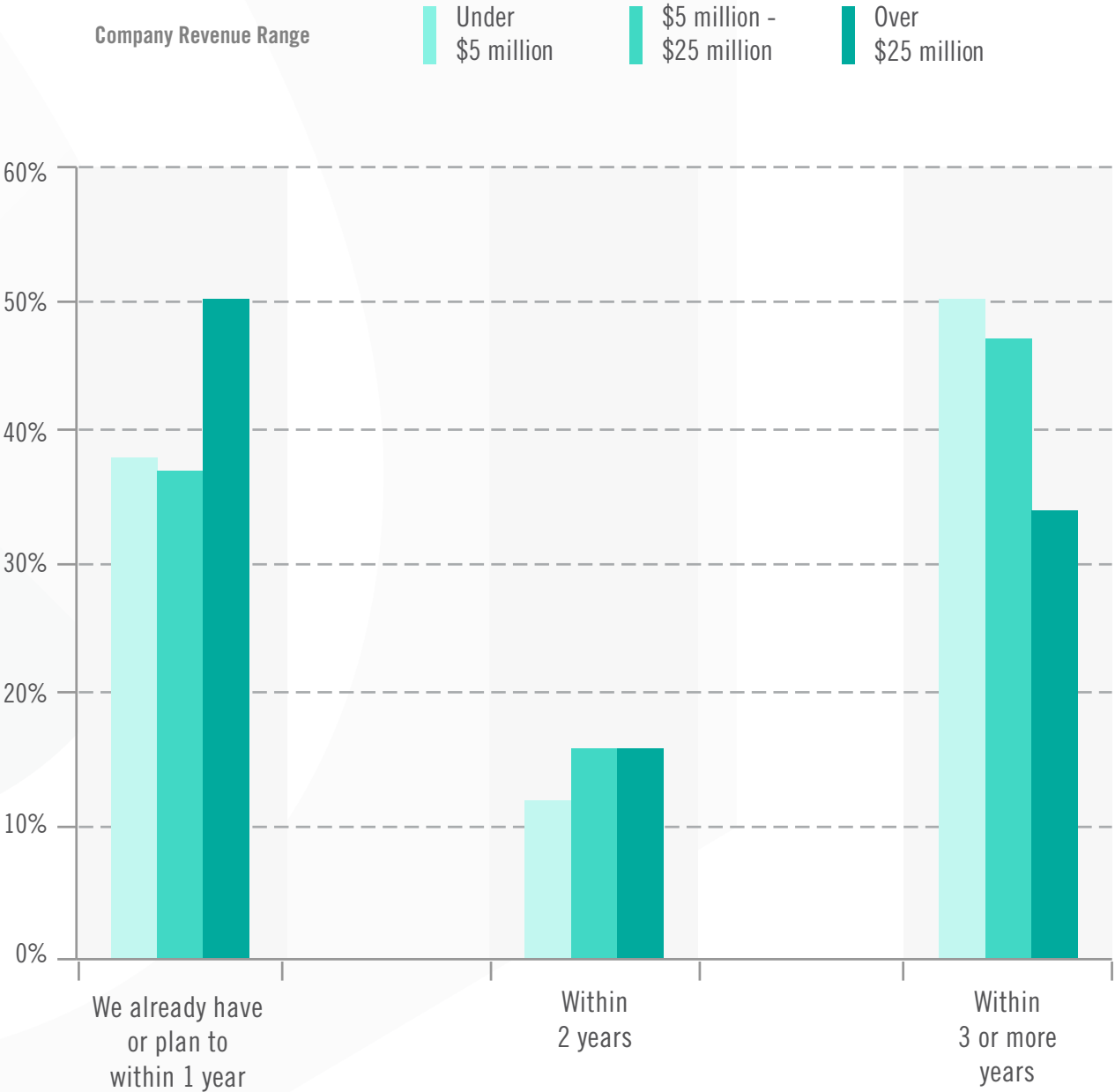
AUTOMATION IS VAGUELY DEFINED ACROSS ALL COMPANY SIZES

Overall, respondents were divided on how to define AP Automation.

As the market continues to mature for AP Automation, and more businesses learn the advanced capabilities of solutions that take a cohesive approach to automating the end-to-end accounts payable process, the definition of AP Automation will likely become more unanimously defined.

How would you define AP Automation?

38%

Streamlining one individual step within the accounts payable process

62%

Streamlining all steps within accounts payable into one online workflow

ERP INTEGRATION TAKES OVER AS MOST IMPORTANT COMPONENT FOR AP AUTOMATION SOLUTIONS

66%
respondents

While Fraud Protection was cited as the most important component of AP Automation solutions in last year's survey, this year's research reveals the ERP Integration is now the most critical. 66% of respondents chose ERP Integration as one of the most important components, as last year's leader was not far behind with 65% of respondents indicating the same for Fraud Protection.

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What are the most important components of an AP Automation solution?

66%
Integration with ERP

64%
Fraud protection

48%
Payment Scheduling

43%
Automated PO Matching

43%
Payment Method Flexibility

39%
Unlimited document storage

20%
Automated Discount Application

20%
Unlimited users

14%
No intermediary payment accounts
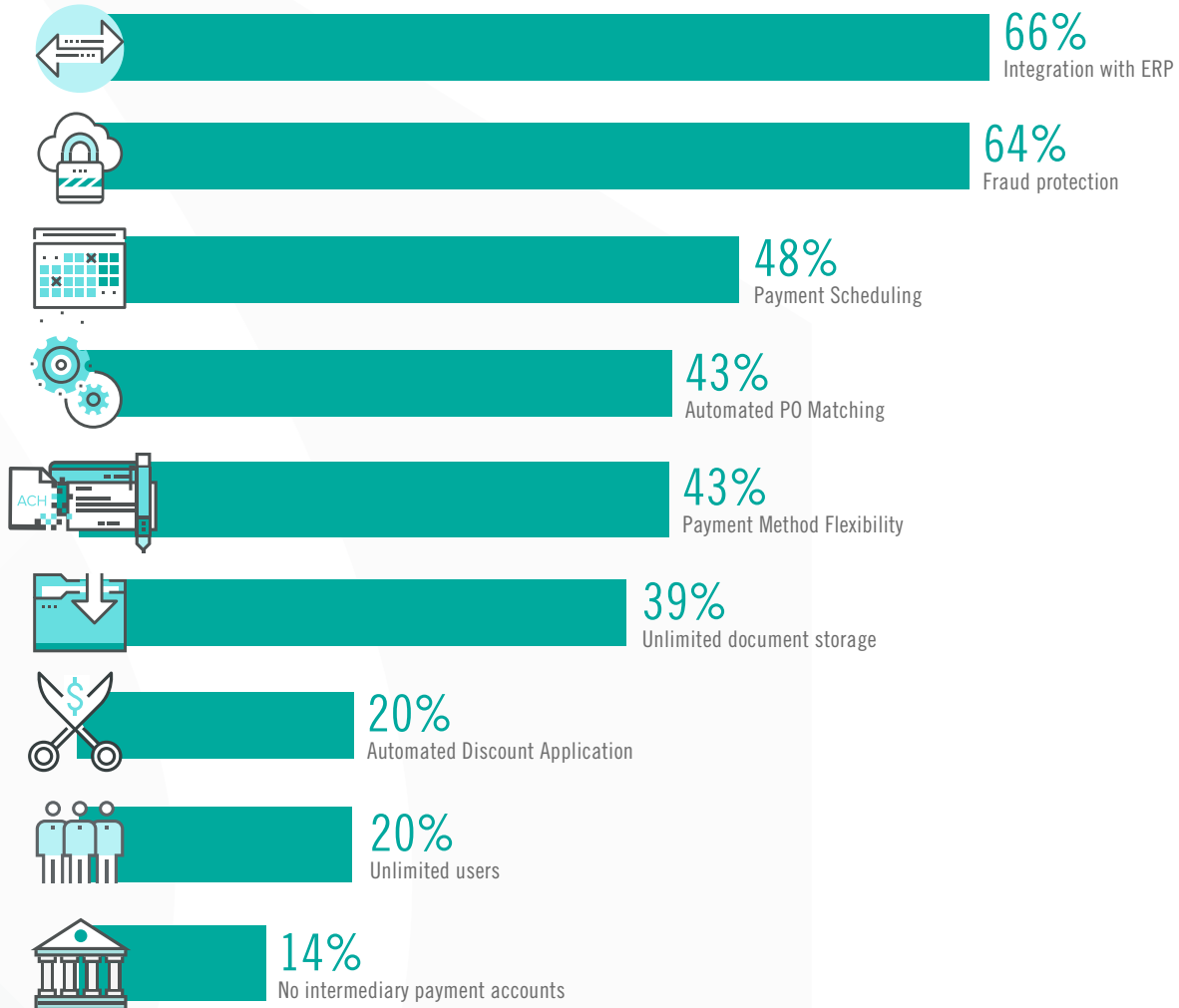
FRAUD IS HAPPENING WITH REGULARITY IN THE MIDDLE MARKET TOO

The AFP's 2018 Payments Fraud and Control Survey Report, which surveyed a spread of businesses that skewed much more heavily toward large enterprises earning more than $500 million of annual revenue, indicated that 78% of businesses are now impacted by fraud. Research from the 2019 State of Accounts Payable indicated that fraud is highly present among middle-market businesses as well, with 59% of all respondents experiencing some form of payments fraud.

Have you ever received a fake invoice or experienced any other attempted form of payments fraud?

59%
Yes

35%
No

6%
Not sure
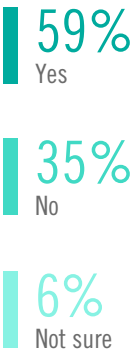
FRAUD PERCEPTION DISCREPANCY EXISTS BETWEEN SENIORITY LEVELS

This year's research also uncovered a discrepancy in the perception of fraud between Executive-level respondents and Manager-level respondents. While at least 67% of all Executive- and Director-level respondents indicated experiencing payments fraud, only 56% of Manager-level respondents indicated the same.

Have you ever received a fake invoice or experienced any other attempted form of payments fraud?

Executive
- 5%
- 27%
- 68%

Manager
- 8%
- 36%
- 56%

0%   10%   20%   30%   40%   50%   60%   70%   80%

Not Sure   No   Yes

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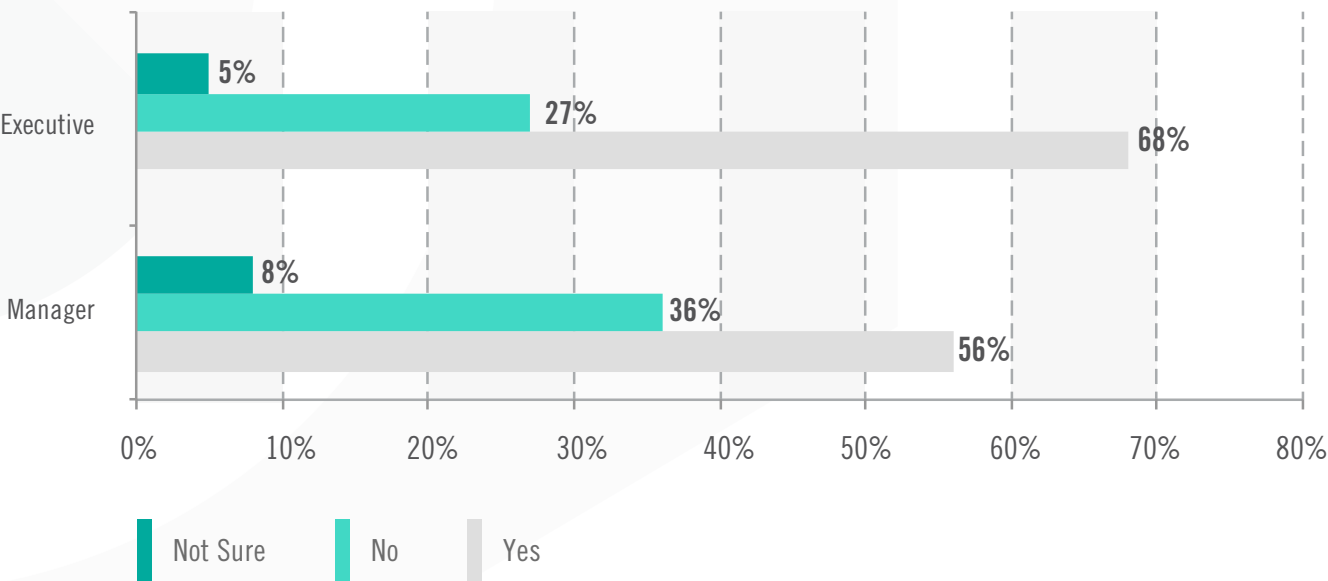
EXECUTIVES LACK VISIBILITY INTO PAYMENTS

Businesses take a variety of approaches to the timing of payments to vendors. Strategies are often tied to factors like industry, capital position, and the nature of a business's relationships with a vendor. Some businesses try to capitalize on offers for early-pay discounts, while others try to hang on to payments until the last possible moment to optimize working capital. This year's research surfaced one significant note: executives are not always on the same page as the teams managing the payments.

63%

63% of Executive-level respondents believe their vendors are being paid on time.

52%

Only 52% of the Manager-level respondents actually facilitating the payments indicated that their vendors were paid on time.

What percent of your invoices do you believe are paid on time?

Category	Executive	Manager
Not Sure	2%	4%
91-100%	63%	52%
76-90%	20%	26%
51-75%	10%	11%
0-50%	5%	7%

■ Executive ■ Manager
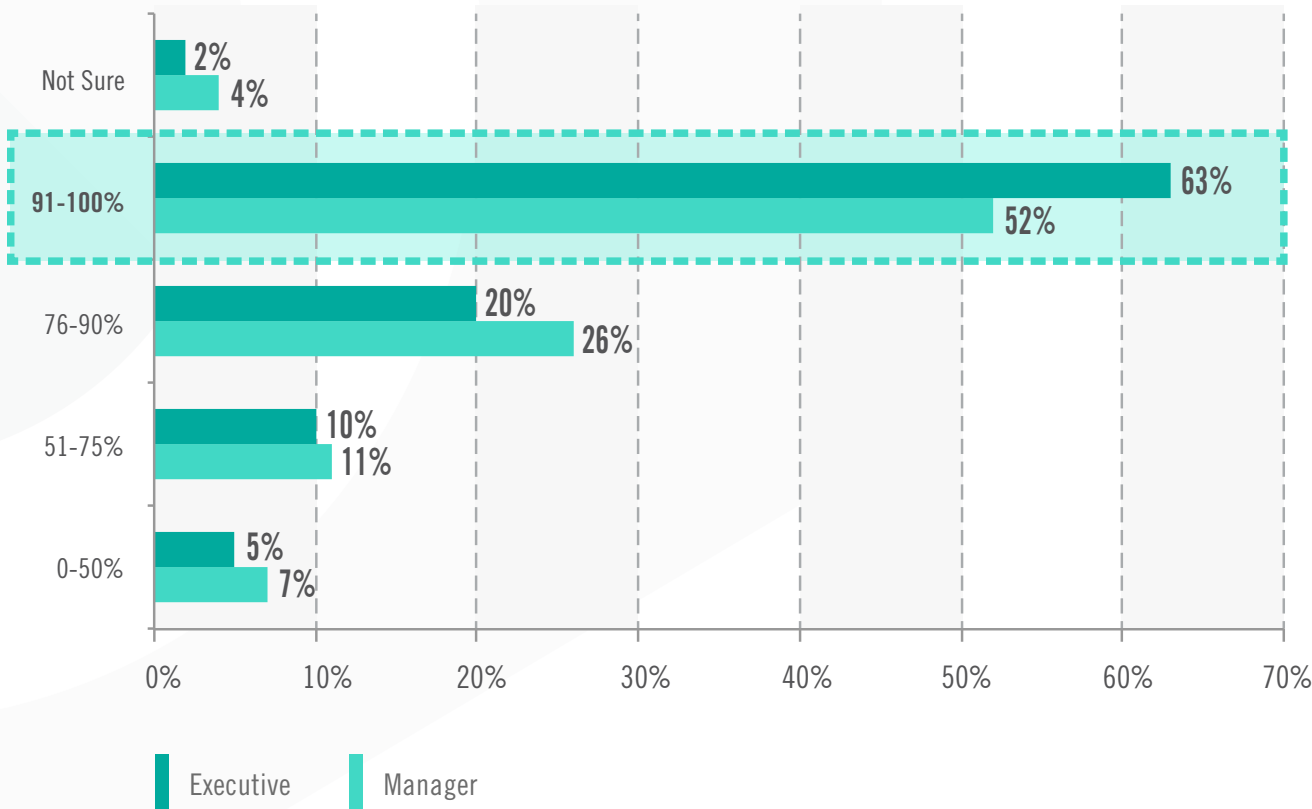
FINANCE PROFESSIONALS CONTINUE UNDERESTIMATING THE COST OF PAYING INVOICES

$12⁴⁴

The average invoice currently costs $12.44 in processing fees for a company that does not automate accounts payable, and this cost can reach upwards of $25 per invoice.

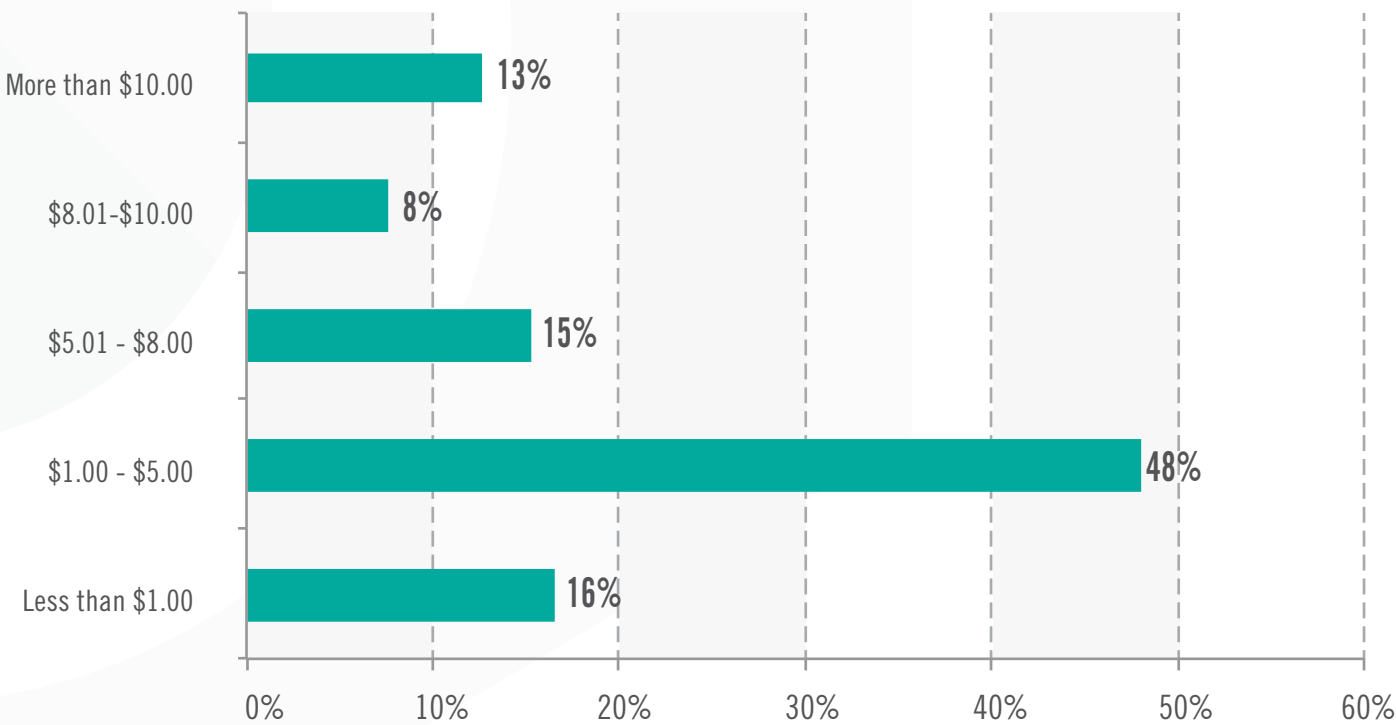The costs of paying invoices come from a lot of different areas, with some costs fixed and some costs variable. While processing, coding, and paying invoices remains one of the most manual and painful processes in accounts payable, it has also proven to be one of the most deceptively expensive.

This year's research shows only 13% of respondents estimated invoices cost more than $10 each to process and pay, even though the true cost of paying invoices is $12, according to the American Productivity & Quality Center. **This is the fourth consecutive year that finance professionals have failed to accurately estimate the cost of this business process, as it continues to quietly eat away at the bottom line of businesses across industries.**

How much do you think its costs to process and pay one invoice?

Category	Percentage
More than $10.00	13%
$8.01-$10.00	8%
$5.01 - $8.00	15%
$1.00 - $5.00	48%
Less than $1.00	16%

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The key drivers of these costs can be divided into a few different categories:

1. Direct costs - are those spent directly on materials to process the invoice, such as paper, ink and postage.

2. Indirect costs - are what a company spends to employ people to process invoices. The majority of this cost is spent on data entry as most manual invoicing has more than a dozen steps.

3. Hidden costs - are costs that are not directly related to manual processing, but that arise out of not using automated AP; these include a reduced cash flow, errors in paperwork and a lack of visibility.

THE MOST TEDIOUS ASPECTS OF ACCOUNTS PAYABLE INVOLVE DATA ENTRY, CODING, AND APPROVALS

Across all annual revenue brackets, **invoice coding and data entry** was cited as the most `tedious aspect of accounts payable by 46% of respondents.
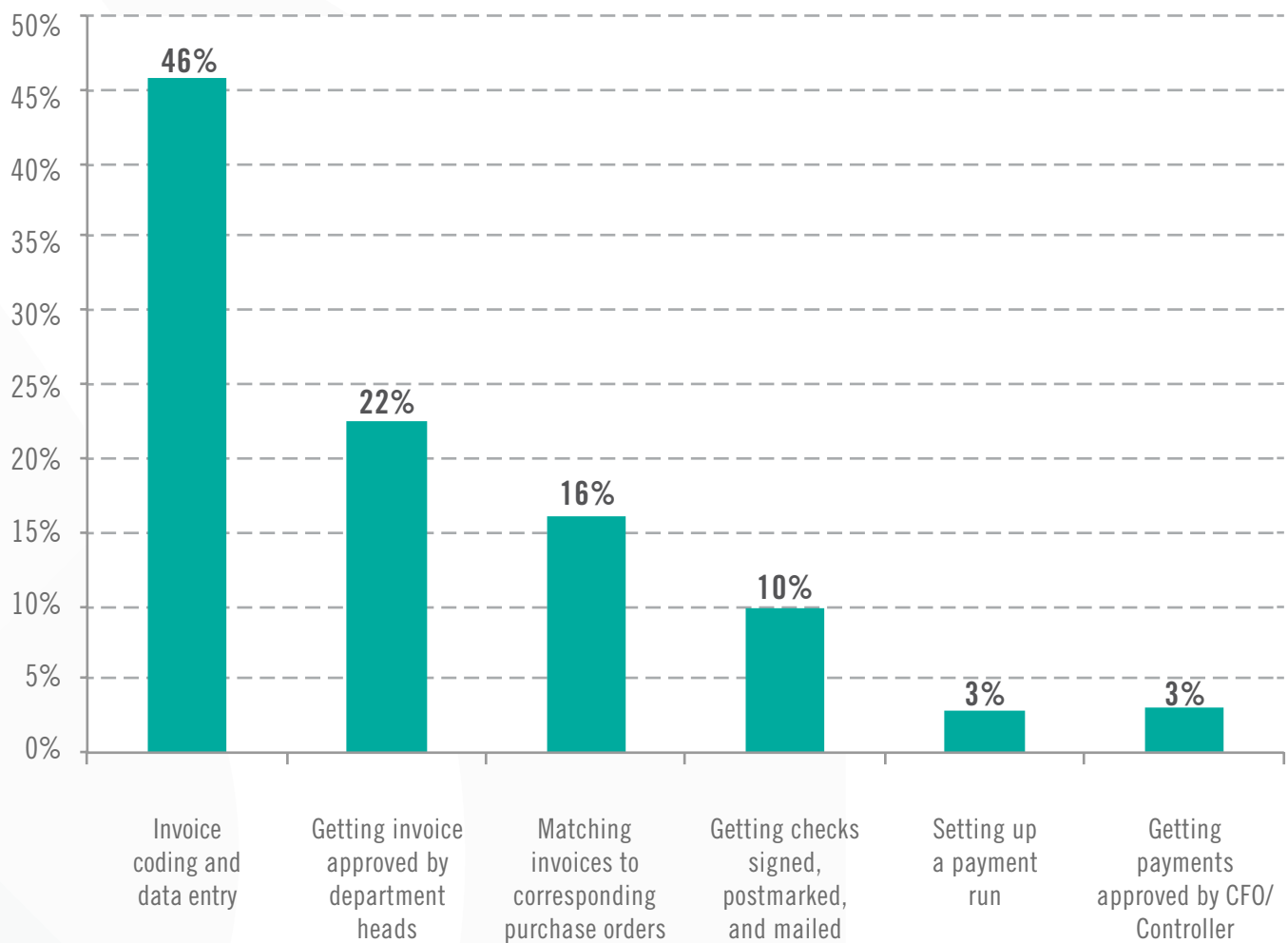
Collecting invoice approvals was cited as the second most tedious task (22%).

And **matching invoices to purchase orders** was the third-most tedious aspect cited by 16% of respondents.

What is the most tedious aspect of accounts payable?

Bar chart showing:
- Invoice coding and data entry: 46%
- Getting invoice approved by department heads: 22%
- Matching invoices to corresponding purchase orders: 16%
- Getting checks signed, postmarked, and mailed: 10%
- Setting up a payment run: 3%
- Getting payments approved by CFO/Controller: 3%

LARGER COMPANIES ARE TAKING LONGER TO COLLECT INVOICE APPROVALS

Although department heads have minimal involvement in accounts payable processing, the small role they play ultimately dictates the success of every accounts payable team.

When department heads become a bottleneck and hold up the approval of invoices, payment schedules get thrown off and invoices begin to fall through the cracks and go unpaid. In turn, vendor relationships can begin to deteriorate, and a business's ability to operate without vendor support is drastically hindered.

How long does it take your team to collect invoice approvals from department heads?

Days	Over $25 million	$5 million - $25 million	Under $5 million
More than 7 Days	10%	9%	7%
6-7 Days	10%	6%	7%
4-5 Days	27%	17%	18%
2-3 Days	40%	41%	36%
1 Day	13%	27%	32%

Company Revenue Range

Over $25 million $5 million - $25 million   Under $5 million
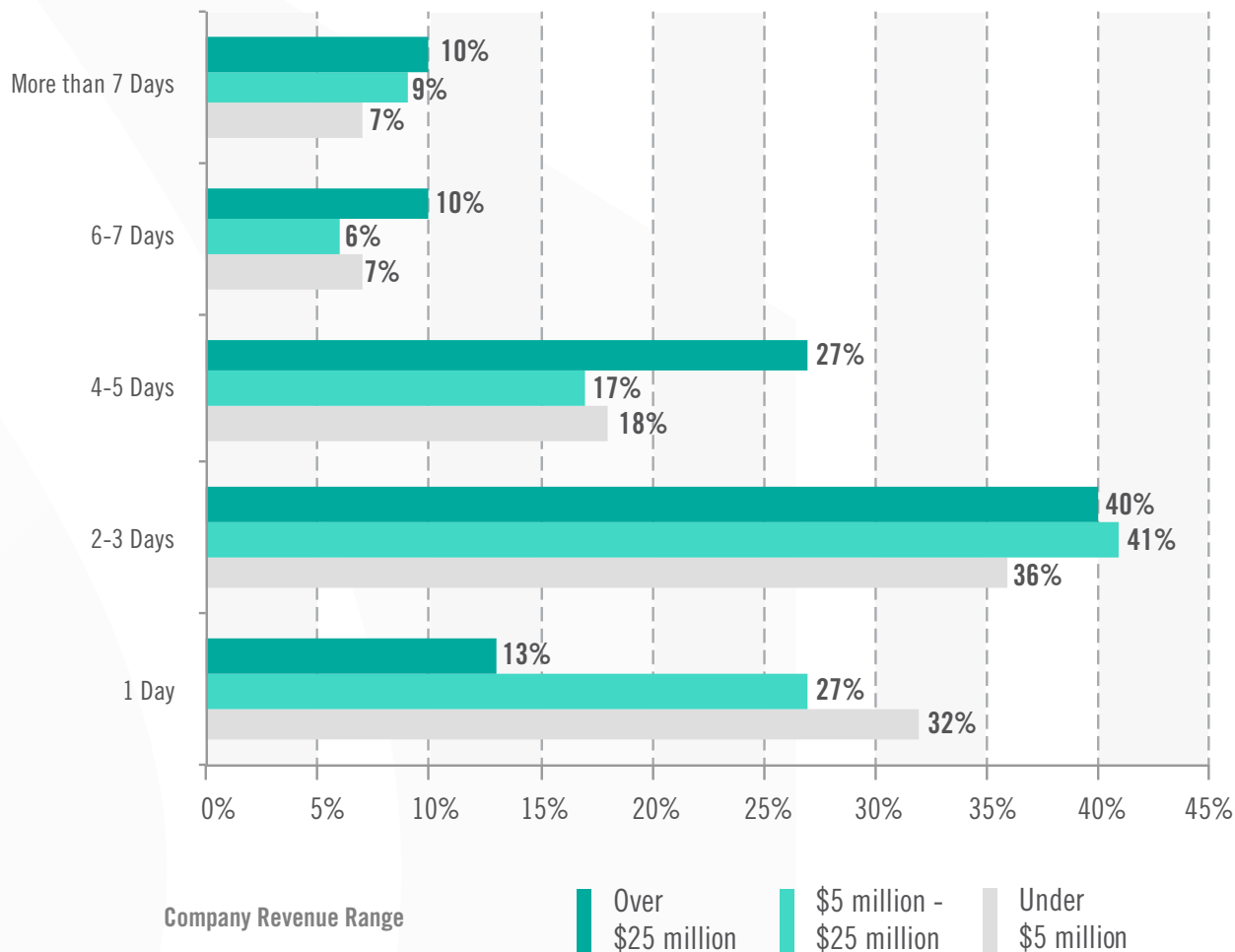
CONCLUSION

The results of this survey indicate accounts payable operations across middle-market businesses are undergoing a clear transformation, spearheaded by a shift toward electronic payments. This transformation is likely being prompted by a variety of factors, including the emergence of payments fraud within the middle market and the introduction of disruptive automation technology. As businesses gain a greater understanding and recognition of the benefits associated with automation technology, and how it enables adaptability to these underlying trends, adoption will only continue to increase in the future.

ABOUT MINERALTREE

MineralTree provides the easiest to use Accounts Payable and Payment Automation solutions for finance professionals at growing middle-market enterprises. Serving 1500 customers and processing $5B in annual payments, MineralTree SaaS solutions automate either the full invoice to pay or payments processes, and reduce time spent by 70 percent.

The company's products support multiple payment options, including check, ACH, wires, virtual cards and corporate credit cards. Capitalizing on these various payment rails, customers can optimize their payables, maximize early pay discounts, manage working capital, and earn rebates and rewards.

Invoice-to-Pay streamlines AP, giving customers unparalleled visibility into financial data and significant cost savings, in an affordable, integrated platform.

Banks and financial institutions have also realized the opportunity to reap the benefits of meeting their customer needs at a deeper level, and trust MineralTree to the point that they are willing to put their logo on our software and offer it to their commercial business customers as a private-labeled offering.

MineralTree products provide advanced payment security features including two-factor authentication, two-factor payment verification, segregation of duties and payment limits. By using these features, MineralTree mitigates risk of online payment fraud, and also covers losses up to $100,000 per year.

FOR MORE INFORMATION
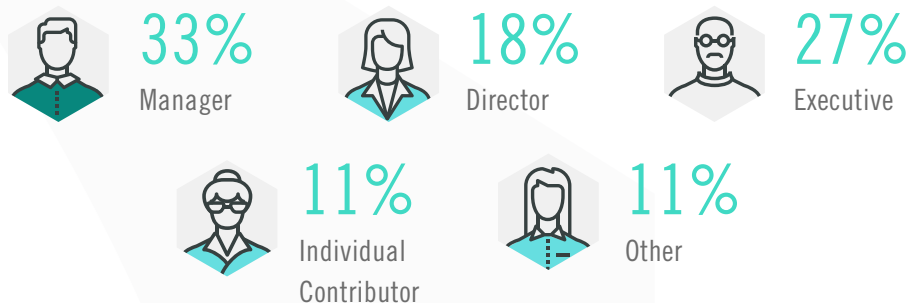
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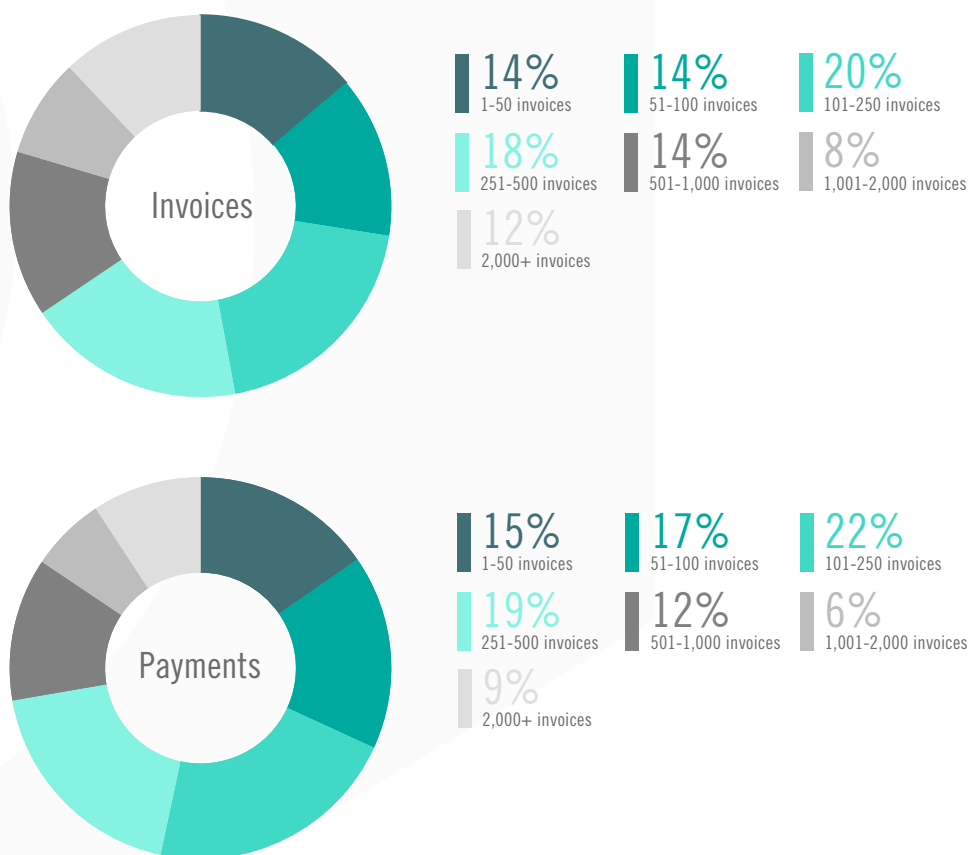
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DEMOGRAPHIC BREAKDOWN OF RESPONDENTS

What is your position?

33% Manager

18% Director

27% Executive

11% Individual Contributor

11% Other

What is your monthly volume of invoices received and payments processed?

Invoices

14% 1-50 invoices
14% 51-100 invoices
20% 101-250 invoices
18% 251-500 invoices
14% 501-1,000 invoices
8% 1,001-2,000 invoices
12% 2,000+ invoices

Payments

15% 1-50 invoices
17% 51-100 invoices
22% 101-250 invoices
19% 251-500 invoices
12% 501-1,000 invoices
6% 1,001-2,000 invoices
9% 2,000+ invoices

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What is your company's annual revenue?

5%
Over $1B

7%
$500,000,001-$1,000,000,000

8%
$250,000,001-$500,000,000

28%
$25,000,001-$250,000,000

16%
$10,000,001-$25,000,000

12%
$5,000,001-$10,000,000

15%
$1,000,001 - $5,000,000

9%
$0 - $1,000,000

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