mineraltree®
A Global Payments Company

2023

The 8th Annual State of AP Report

AP Teams Turn to Automation to Do More with Less

Executive Summary

Many post-COVID business challenges persist in 2023 despite the progress we've made. Amid ongoing economic uncertainty, businesses are still contending with fallout from the pandemic, impacting everything from supply chains and the labor force to the workplace itself. It's clear that the old ways of doing business aren't returning. Vendor relationships have grown in importance, companies must do more with fewer staff, and hybrid workers must be accommodated. Our 8th Annual State of AP Report 2023 explores these issues and their impact on AP teams.

Added global and market challenges, including the war in Ukraine, inflation, and rising interest rates are contributing to the uncertainty, and place corporate finance squarely in the spotlight. Finance leaders are keeping a close eye on their balance sheets, taking fewer risks, and focusing more on "cost reduction" over growth.[1] Accounts Payable (AP), in particular, has become ground zero as liquidity and cash flow have become even more indispensable. Recognizing the vital need for greater productivity, visibility, and control over cash, it's no surprise that the finance leaders in our survey resoundingly chose AP as their number one digitization priority again this year. In addition, finance leaders and vendors alike are focusing on digital payments to provide better control over cash flow.

Capturing the current state of AP and plans for improvement

This report highlights key trends, challenges and priorities for both AP and vendors. The data captured this year and comparisons with previous surveys reveal the realities of the post-pandemic hangover and its impact on AP. We took the pulse of finance leaders in companies of all sizes and across industries, as well as their vendors, to capture the current state of AP and future plans. We explored current staffing and remote work plans; economic impacts; and vendors' interest in speedy payments and response to inquiries. We looked at the progress of AP automation and digital payments, including the shift in the payment mix, and the obstacles that AP teams and vendors are facing in digitizing processes despite the strong desire of both parties to do so.

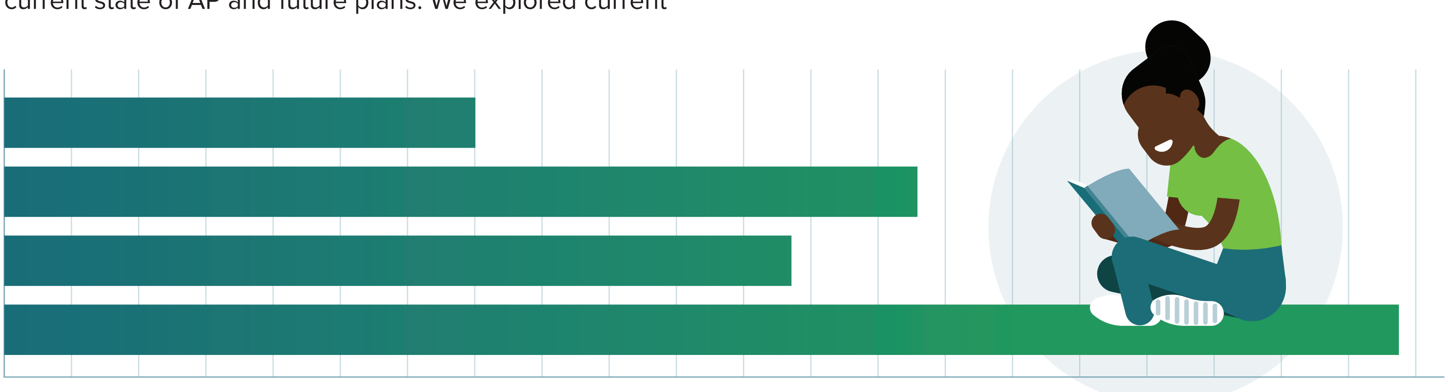
Finally, the report highlights the results that AP teams are realizing through digitization and recommends four ways your team can optimize processes and gain visibility and control over spend and cash flow.

Methodology

For the eighth consecutive year, MineralTree surveyed a wide range of finance professionals to analyze their current state of operations, challenges, and outlook for the year ahead. For the second year running, our State of AP report includes responses from both buyers and their vendors.

In preparing the report, we surveyed 821 finance professionals involved in the AP function (both customers of MineralTree and non-customers), along with 246 employees at vendor organizations, between March and April of 2023. The respondents represented a distributed mix of industries, company size, and job level. The annual revenue of these organizations ranged from under $1 million to more than $1 billion, with fewer at either end of this spectrum and the majority at the mid-market $10-$100 million mark. The number of vendor payments for these companies ranged from a few to more than 2000 per month, with the majority in the 101-500 range. The job level of respondents varied, with the greatest number holding manager positions, followed by individual contributors, executives, and directors.

Survey responses were collected anonymously online.



1. Source: Deloitte, CFO Signals™ Survey 2Q 2023

Report Highlights

The 2023 State of AP Survey focuses on the evolving post-pandemic finance work environment, the progress organizations have made with digitizing end-to-end AP workflows and payments, and their current digitization and automation priorities. The report, which is a detailed and insightful snapshot in time, can serve as an industry benchmark against which finance teams can compare their own automation practices and plans.

Below are five overarching themes in this year's report:

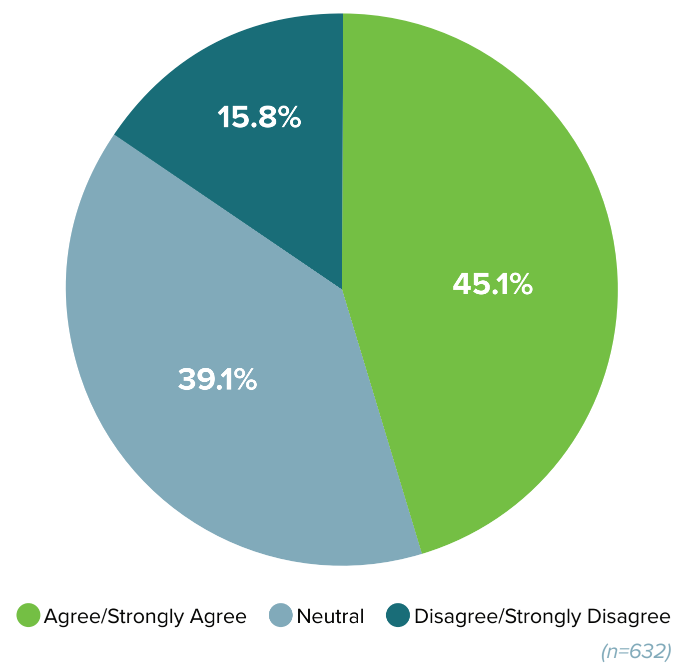
1 Recessionary headwinds and rising costs force AP teams to do more with less.

With increasing corporate belt-tightening, finance leaders are focused on boosting the productivity of lean AP teams after reducing headcount, avoiding new hires, or taking other measures to cut costs. A majority of finance leaders (58.8%) say this is top of mind, followed by reducing AP processing costs (49.1%); improving the ability to manage cash flow, such as extending Days Payables Outstanding, DPO (43.1%); and gaining better visibility into their current cash position (42.3%).

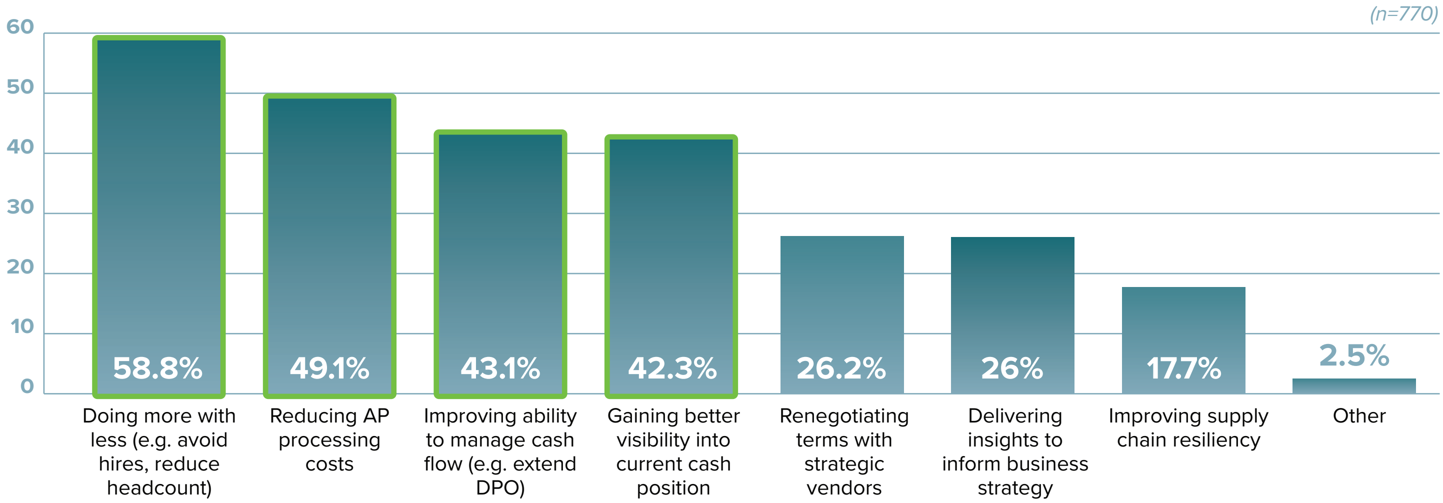
Despite the pressure to do more, finance leaders looking to staff up are facing difficulties. Almost half (45.1%) anticipate hiring challenges and delays. While down slightly from 54.3% of AP teams last year (possibly due to slower hiring demand overall) it still remains a key obstacle.

Additionally, AP teams continue to work remotely, at least part of the time. The survey found that 67.6% of AP work environments are hybrid or fully remote, consistent with 68.1% of teams last year. Interestingly, those surveyed expect this trend to increase in the coming year to reach 72% of workplaces. Automated processes are more critical in these remote and hybrid work environments, where it's difficult for staff to physically collect invoices and route them manually for approvals, as well as check signatures and authorize payments.

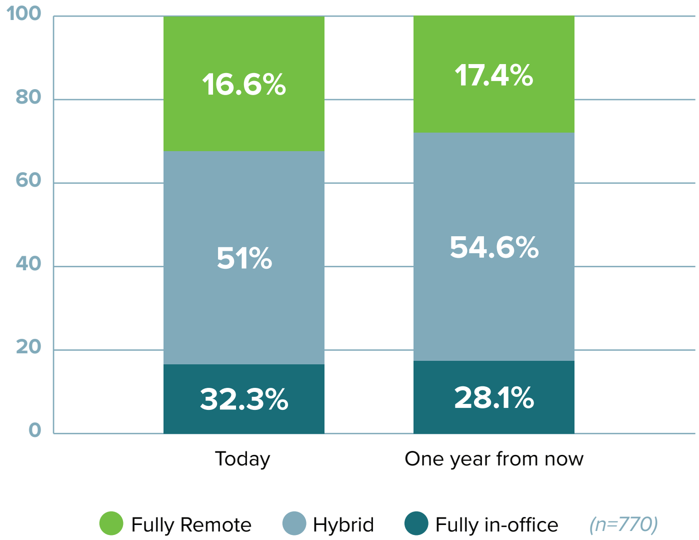
My organization anticipates challenges and/or delays in hiring quality people in AP



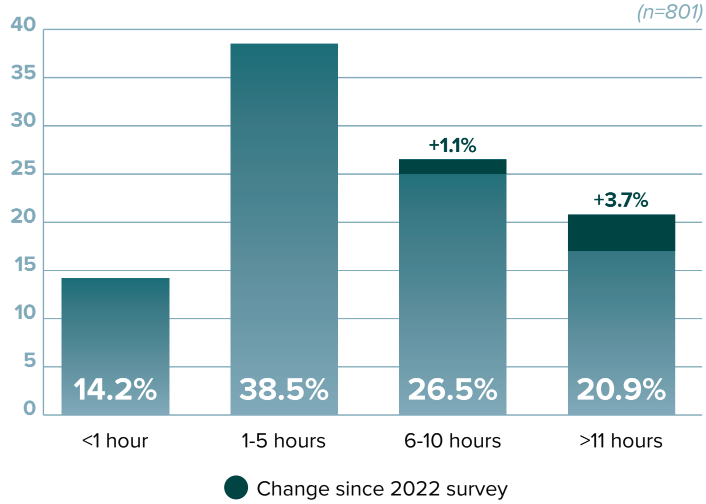
Top-of-mind issues for AP teams in the current economic climate



How the AP work environment has evolved



AP teams spend more time responding to vendor inquiries



2 Automation remains a key strategy, but cost-cutting may be taking a bite out of project budgets.

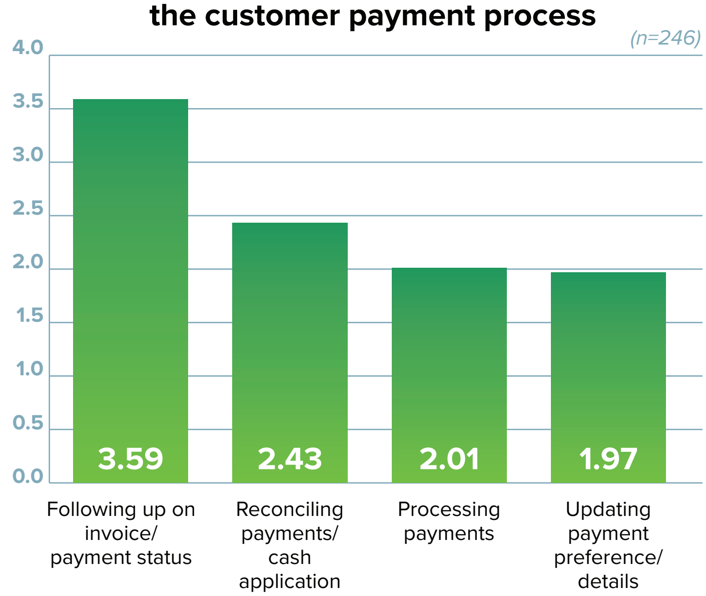
While fewer respondents claim to have automated all or part of their AP process compared with last year, possibly due to budget constraints, AP automation holdouts are still a small minority of the respondents, even when we exclude our own customers from the responses. When we only considered non-customers, more than half (51.6%) have automated at least some of their AP processes. Despite the economy, there is momentum among 52.1% of all AP teams to adopt or invest more in automation this year, similar to 53.2% last year. With a little over half committing to digitization, there is untapped opportunity for companies to invest more in order to increase productivity, better manage cash flow, and reduce risk, among other benefits.

3 Vendor inquiries are amplifying inefficiencies, but they require prompt attention.

In the midst of these challenges, stretched teams are getting bogged down with vendor inquiries, data entry and other manual, time-consuming tasks. Nearly half of AP teams (47.3%) are spending more than six hours per month following up on vendor inquiries, up from last year (42.5%).

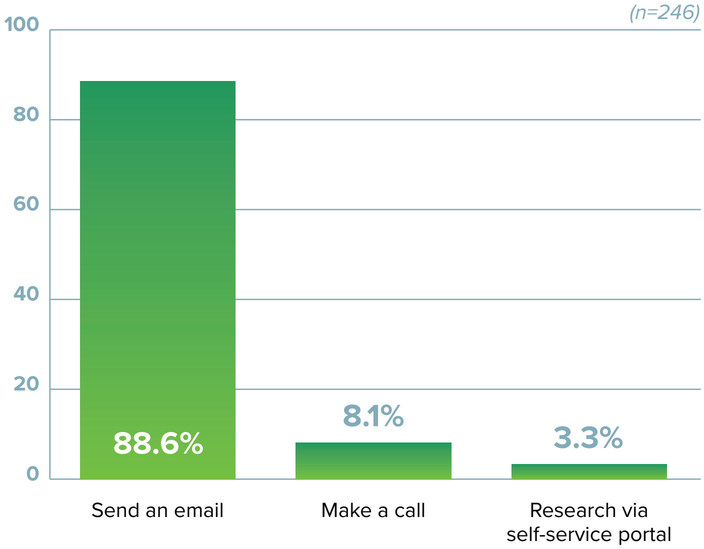
Vendors are also unhappy with the time it takes to follow up on invoice status, and it remains their top pain point in the customer payment process. Other key concerns include reconciling payments and cash application. Vendor dissatisfaction may be growing, with just over half (52.3%) feeling that AP follows up on payment inquiries in a timely manner, compared to 55.5% that responded that way last year.

Biggest pain point for vendors in the customer payment process

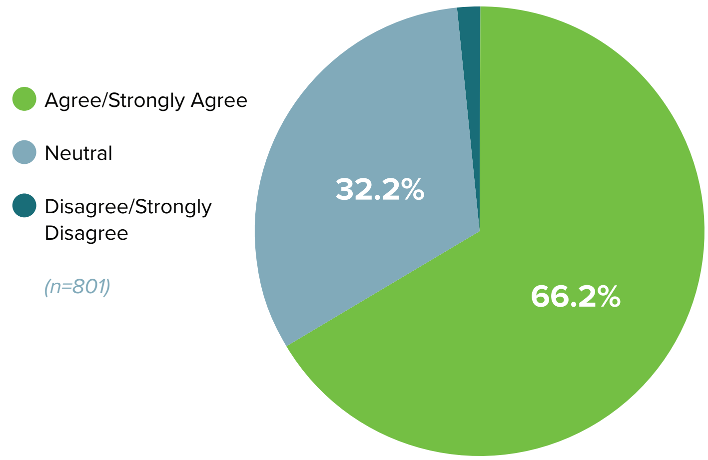


The availability of vendor self-service portals offered by some AP automation and procurement providers isn't helping with their inquiries, as only 3.3% of vendors prefer to use a self-service portal to follow-up on payment inquiries. Of the vendors that use buyer portals, nearly half (48.5%) use them infrequently if at all (monthly, quarterly, or never) and instead prefer connecting with AP directly through email or phone calls.

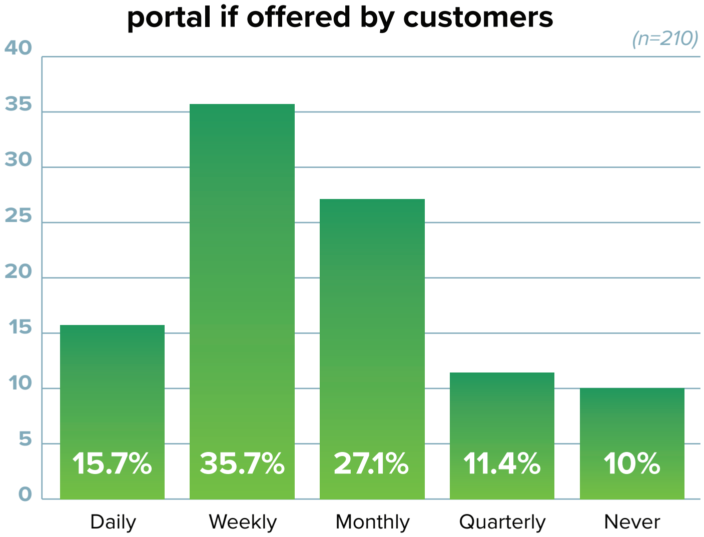
Vendors’ preferred contact method for payment inquiries



Over the last year, our supplier relationships have grown more important to our business



How often vendors access self-service portal if offered by customers

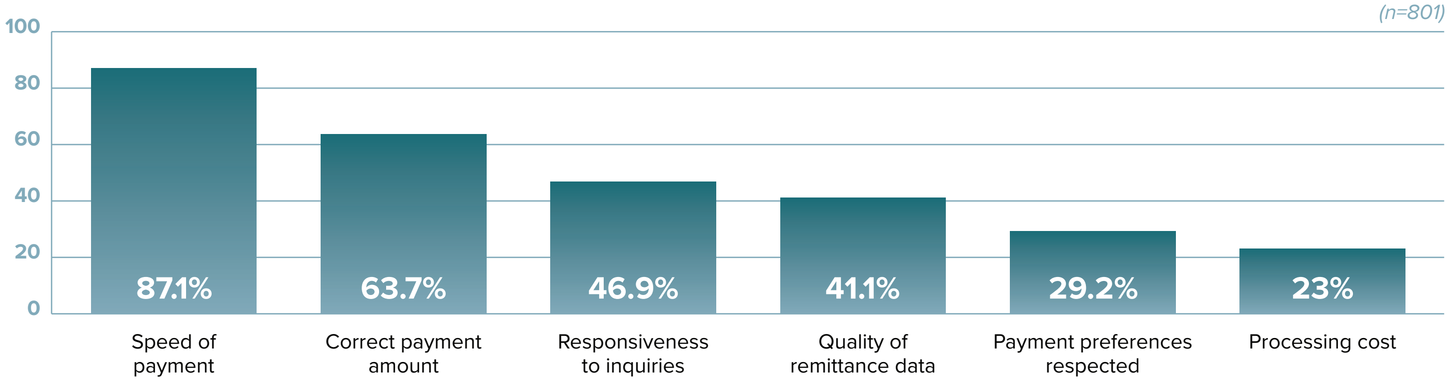


4 Vendors continue to be important players, and they value payment speed above all.

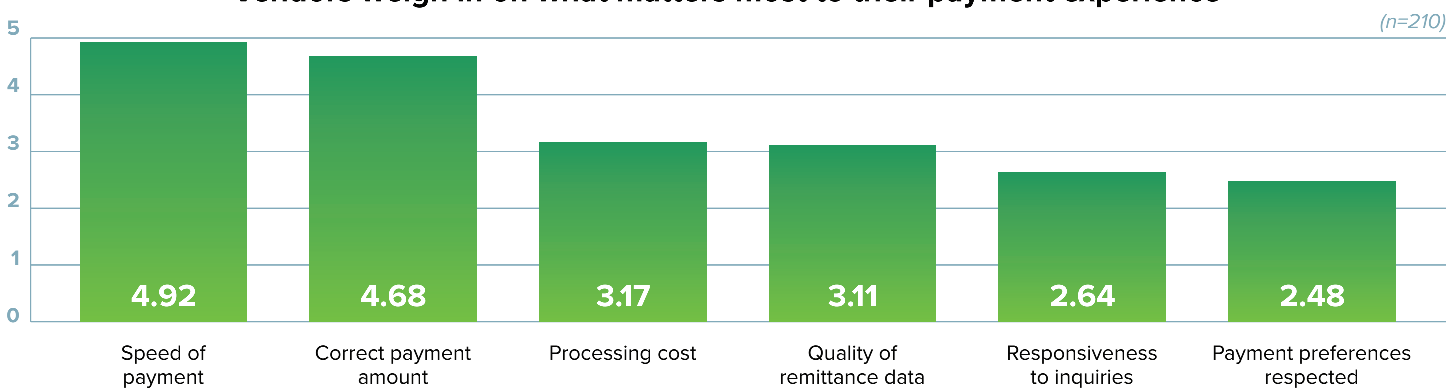
While slowly stabilizing supply chains may have relieved some of the pressure, two-thirds (66.2%) of finance leaders agreed or strongly agreed that their vendor relationships have grown in importance. That number rises to 70.6% for respondents who’ve automated their AP processes. A recent survey[2] found that average Days Payables Outstanding (DPO) fell by as much as 4.7 days last year, as vendors demanded faster payment to accelerate receivables. Vendors continue to rank speed of payment as their top priority in the payment experience, followed closely by accurate payment, and, to a lesser degree, payment acceptance costs and other issues. AP teams, perhaps prompted by inquiries, accurately identified speed of payment as being most important to their vendors (87.1%), followed by accurate payment (63.7%).

2. Source: The Hackett Group®, 2023 Working Capital Survey

Buyers weigh in on what matters most to the vendor payment experience



Vendors weigh in on what matters most to their payment experience



5 Digital payments growth continues.

Finance leaders continue to modernize the back office and look to maximize working capital while minimizing costs. Since paper-based checks take time to prepare and mail, it is difficult for AP to know exactly when these payments will clear. This not only impedes cash flow planning, but can also lead to late payments and associated fees. Conversely, direct-debit digital payments give finance leaders greater predictability over cash flow. AP can time the withdrawal of funds for payment within 24-48 hours depending on the method used and have access to their cash until that time – an important advantage, especially in times of economic uncertainty.

Both buyers and suppliers value digital payments. Seventy percent of AP teams plan to increase digital payments over the coming year. Given their preference for faster payments, the great majority of vendors (78.5%) also want to receive digital payments – including wire, ACH, and virtual cards. One key reason for this interest is that 76.4% of vendors believe that when buyers pay electronically, they are more likely to pay on time.

70%

of buyers intend to convert more AP spend to digital payments

(n=821)

79%

of vendors want to receive more digital payments

(n=246)

76%

of vendors agree customers paying electronically are more likely to pay on time

(n=246)

AP Automation is On the Rise, Providing Critical Value

As reflected in the survey data, AP automation continues to be the most effective way for teams to do more with less, allowing them to process invoices and pay vendors quickly and easily. Most respondents recognize the importance of automation, have already or are planning to invest more in it, and are achieving some of the efficiencies and other expected results.

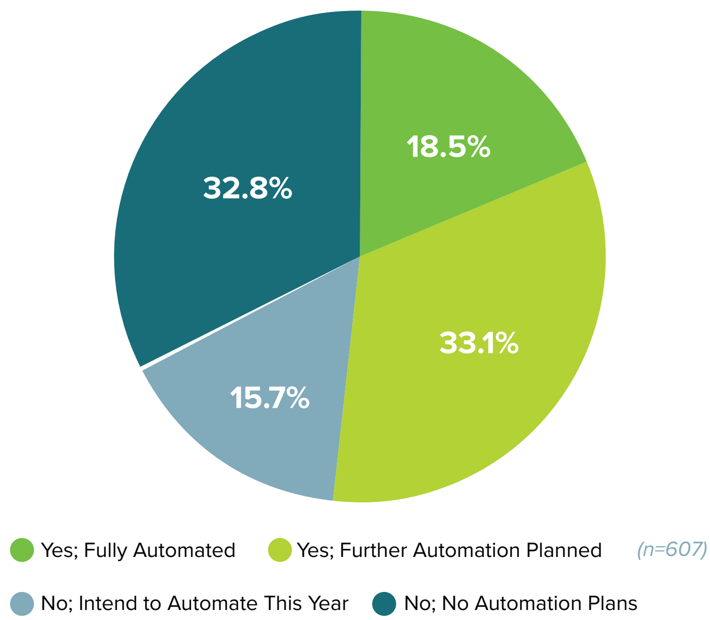
AP is the #1 digitization priority for the third consecutive year.

Given market pressures, it's no wonder that finance leaders ranked AP automation as their top digitization priority over other back-office technology needs. In addition to the efficiencies that enable consistent on-time payments, AP automation can offer real-time dashboards, providing much-needed visibility into cash flow and working capital. It also provides finance leaders a choice of payment timing--either to improve cash flow or take advantage of early payment discounts. Other top automation priorities include Accounts Receivable (AR), expense management, close management, and forecasting –mirroring responses from last year.

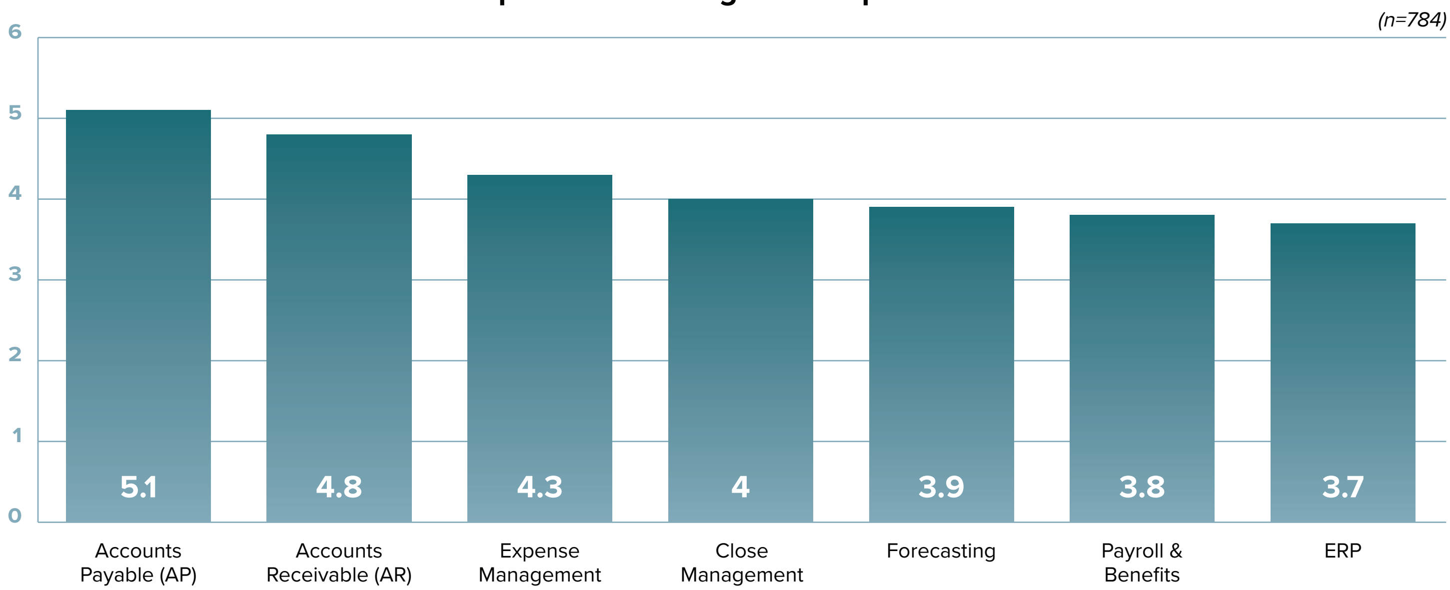
AP automation holdouts are in the minority.

When we surveyed non-customers, 51.6% have automated some or all of their processes, tipping the scale to digitization. And they continue to show interest in automation, with 48.8% planning to invest in automation this year, either for the first time or expanding to automate more processes.

Non-customers: Has your organization automated its AP process?

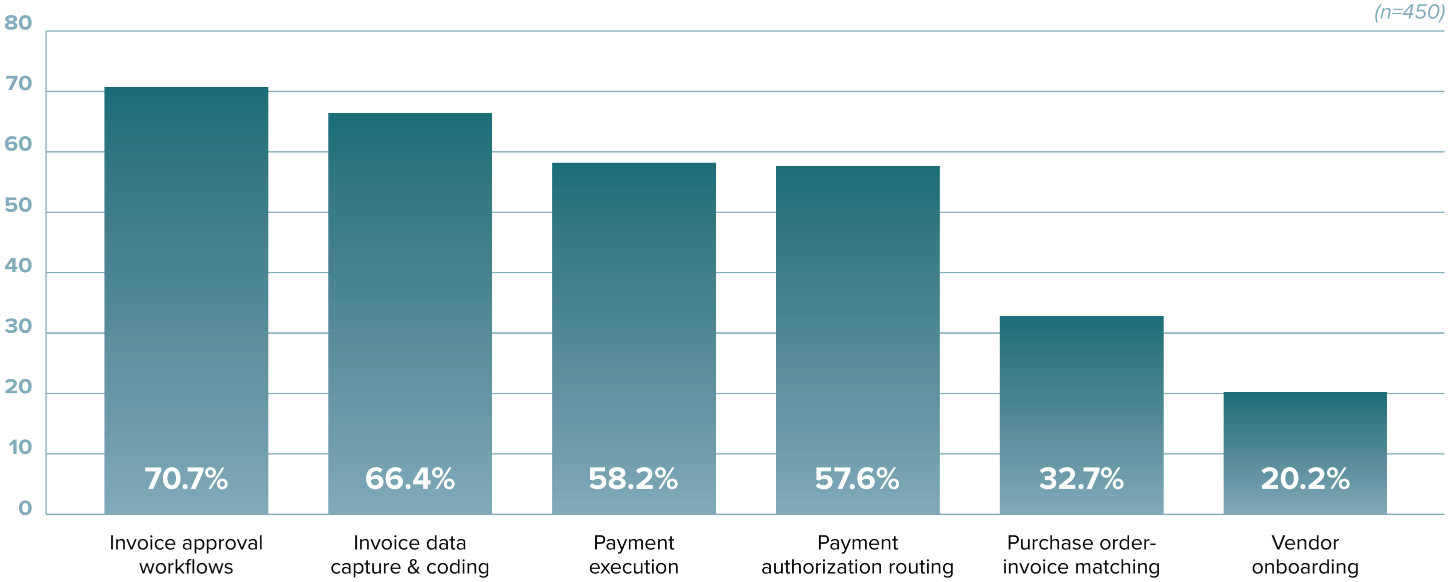


Top back-office digitization priorities



For those who have begun the automation journey, the most digitized AP task is invoice approval/workflows (70.7%), followed by invoice data capture and coding (66.4%), payment execution (58.2%) and payment authorization (57.6%), among others. Interestingly, vendor onboarding is only automated at 20.2% of companies

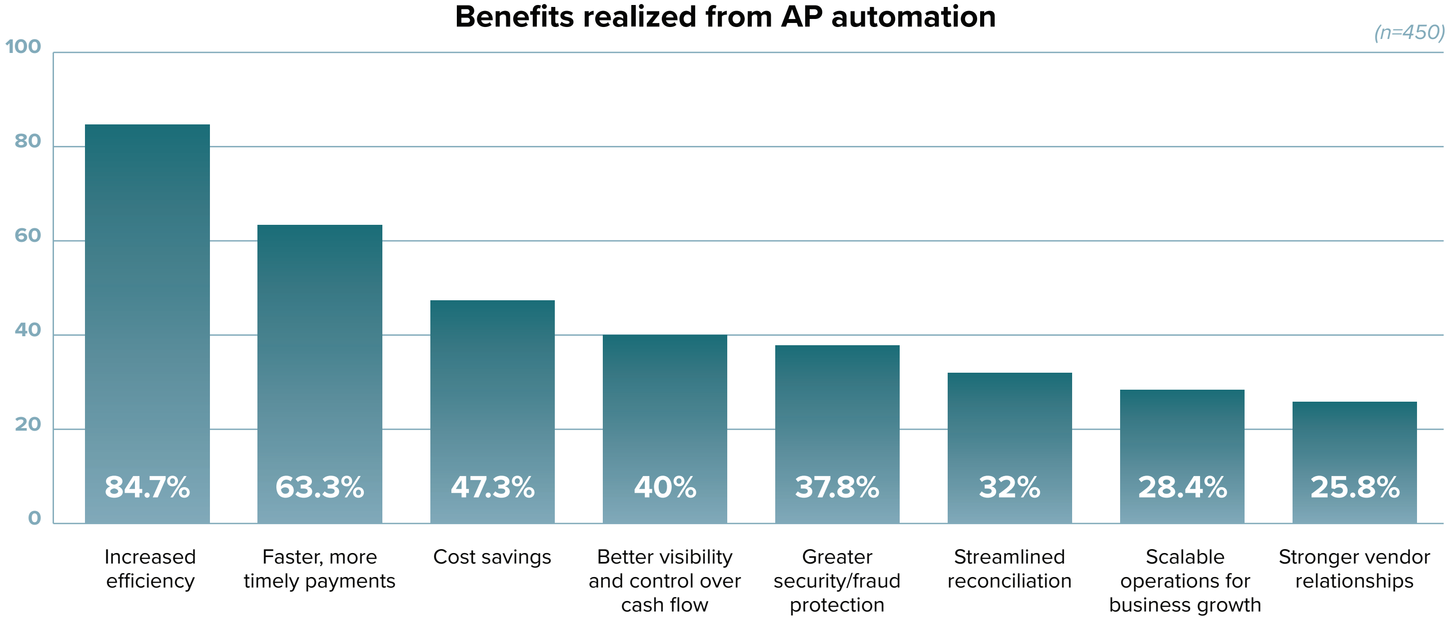
AP tasks that are automated



Efficiencies from automation let AP do more with less.

An overwhelming majority of teams we surveyed using AP automation have realized efficiency gains (84.7%) and faster, more timely payments (63.3%). Finance leaders are benefiting from the increased productivity and processing capacity in different ways. The majority (58.4%) are able to absorb a growing volume of invoices and payments with the same-sized team, compared to 61% last year. Almost a quarter of finance leaders (24.4%) have reallocated freed-up staff time to other projects. The number of finance leaders who are processing the same volume they had previously with a reduced team size is 17.1%, which is an increase over 13.8% last year. This benefit may be critical to teams that are having difficulty hiring qualified candidates, are losing staff through attrition due to the Great Resignation, or are under budgetary pressure to avoid new hires.

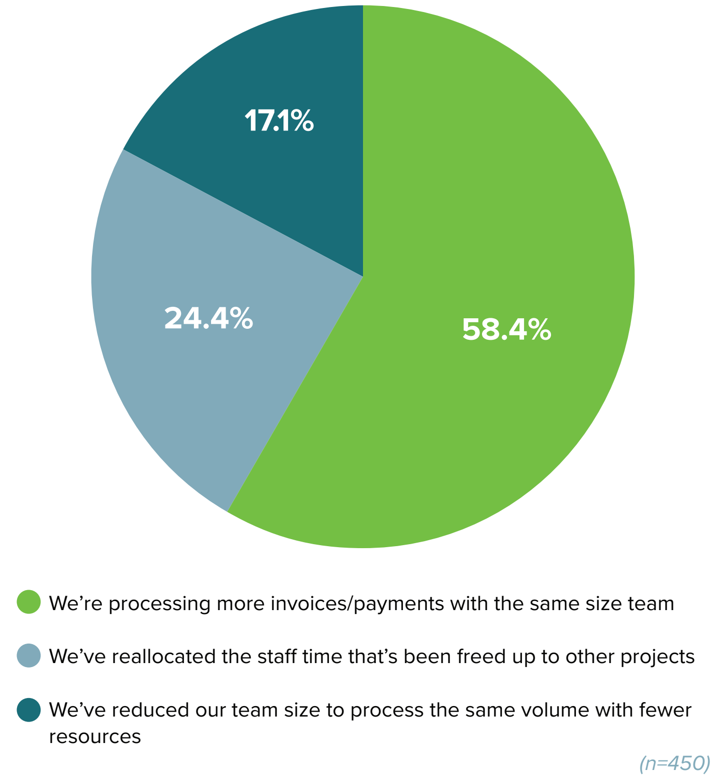
Benefits realized from AP automation



Interest in digital payments continues, but the blame game and other obstacles slow the progress

Manual check payments are not only time-consuming and costly, but they are vulnerable to human error and fraud. Despite strong interest from finance leaders and vendors alike, AP digital payment adoption is happening slowly. While AP recognizes the value that digital payments deliver, it is getting bogged down by old habits, misperceptions, and bandwidth concerns about vendor onboarding. With automation and managed payments services, AP teams can enjoy more cost-effective and secure payment options, with increased visibility and control. At the same time, vendors can get paid faster and have rich remittance data to facilitate easier reconciliation.

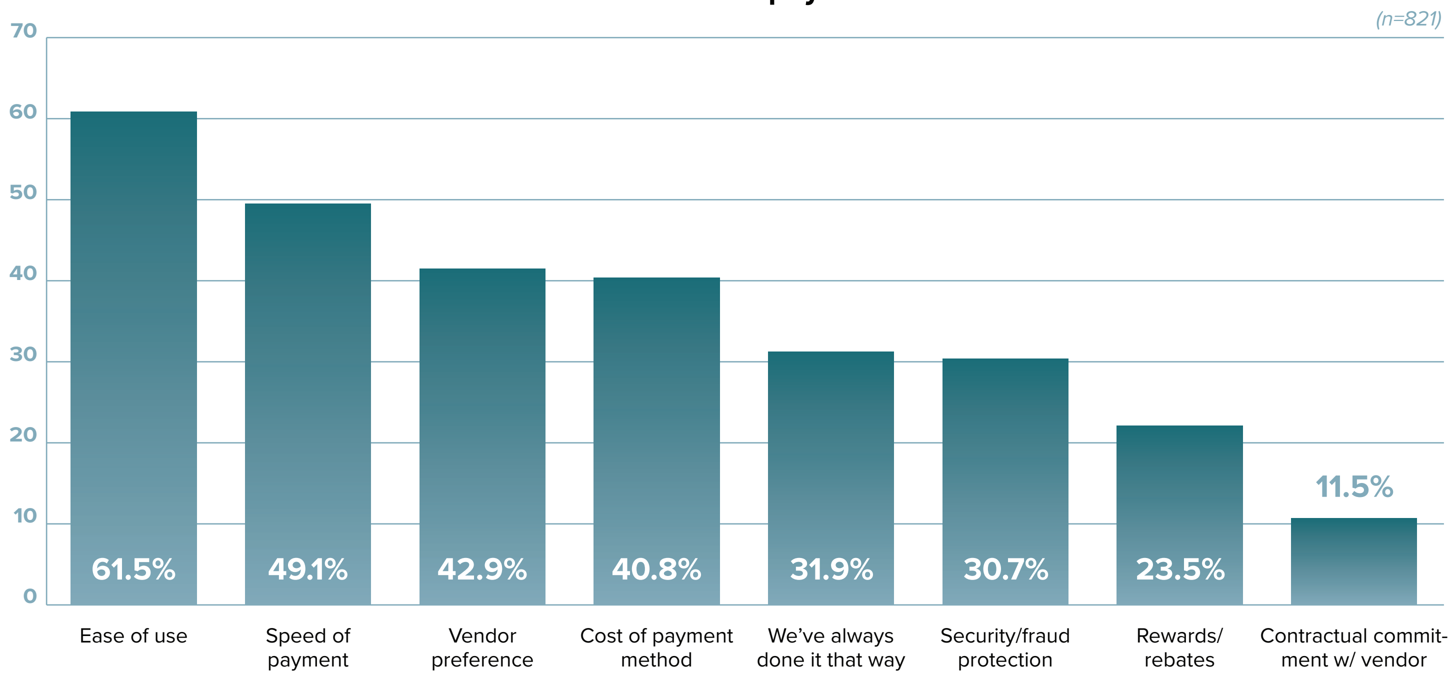
AP Automation Effect on Team Structure



Checks are entrenched, but digital payments are making inroads.

Check and ACH claim nearly equal shares of the total payment mix for survey respondents, with roughly 35.6% of AP teams indicating they make 51% or more of their vendor payments via check (35.2% say the same for ACH.) Paying by check is a burden to lean AP teams, who may still have to manually prepare some checks, get them signed, and stuff, seal and mail them. It also slows down payment to vendors, who not only have to deal with processing delays but also wait for checks to arrive in the mail. In addition, checks are costly. Industry experts estimate that it costs between $4-$20 to prepare each check, including the cost of labor, materials, and postage. And, when it comes to fraud, checks are the most vulnerable payment method.

Main drivers for current payment methods



When asked what drives their choice of payment method, finance leaders rank ease of use first (61.5%), followed by speed (49.1%), vendor preference (42.9%), and cost of payment (40.8%).

To address manual check handling problems and satisfy finance leaders' wishes, it's no surprise that companies are moving toward digital payments. It enables them to streamline processing, pay their vendors more quickly and securely, and gain greater control over payments.

Digital payments provide critical value for buyers and suppliers alike.

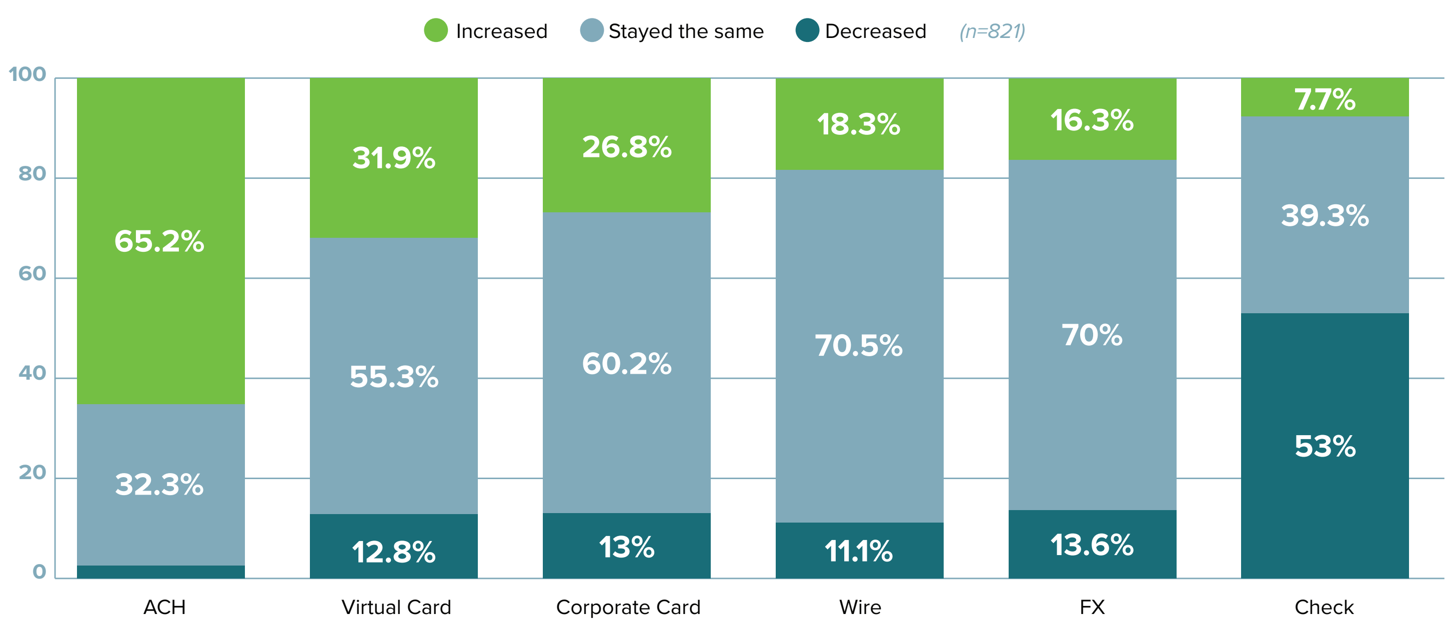
Both AP teams and vendors are interested in digital payments for the same reasons, including faster, more timely payments and increased efficiencies. Additionally, finance leaders are looking for cost savings, while vendors want to benefit from improved remittance, and both groups are interested in increased security and fraud protection.

With ACH leading the way, AP is making more digital payments than checks.

AP teams are continuing to rely on digital payments over checks. The percentage of ACH and check payments for 2023 are neck- in-neck for most payment volumes, with checks leading the way only at the very lowest and highest invoice volumes. When combined with other electronic payment types – including virtual cards, T&E purchasing cards, wire, and FX/international – digital payments win out at all volumes. The same pattern followed in 2022.

The growth of digital payments has remained consistent year-over-year. In 2023, 53% of AP teams reduced their reliance on check payments, compared to 53.1% in 2022. At the same time, 62.7% increased ACH payments in 2023, compared to 62.3% last year.

Annual change in vendor payment types



Virtual cards slowly gain traction as more AP teams add them to the payment mix.

Virtual cards are being used more often than last year, as respondents indicating non-use of virtual cards dropped from 57.4% to 50.7%. However, their overall share of the payment mix is still low (more than half of those using virtual cards use them for fewer than 10% of payments.) The findings suggest that AP teams are testing virtual cards but may be sensitive to fees, or their vendor enrollment campaigns may be slow to yield results.

Virtual cards are attractive to finance leaders because they provide cash back rebates with every purchase. Some companies use the funds to offset the cost of an AP automation solution, while others with higher card spend are even able to transform AP into a profit center. Additionally, virtual cards give vendors almost immediate access to funds after the payment is processed, which is faster than ACH.

Virtual cards also offer greater protection against fraud. The 2023 AFP Payments Fraud and Control Report found that attempted or actual fraud was committed against 65% of companies over the past year, and checks were the leading payment method that was impacted (66%). By contrast only 9% of fraud was associated with virtual cards, which is one of the most secure payment methods. They have randomized account numbers and only validate payment for one time use.

Unfortunately, the collapse of the Silicon Valley Bank provides new opportunities for bad actors to perpetrate Business E-mail Compromise and other types of payment fraud. In this environment, reducing risk and protecting funds is crucial. *See sidebar on page 12: Be on the Lookout for BEC*

Misperceptions and the Blame Game continues, but vendor acceptance of digital payments is near universal.

Despite buyers' and suppliers' overwhelming interest in paying electronically and the benefits they both enjoy, they mistakenly blame each other for the slower transition to digital payments. Once again, AP teams cite vendor unwillingness to accept digital payments as the number one obstacle to converting more spend to that method. Yet, in reality, just about all vendors accept some form of digital payments. A whopping 98.8% accept ACH, up from 94.4% in 2022; 78.9% take wire, similar to 77.8% last year; and 63.8% accept plastic or virtual credit cards, slightly down from 66.7% last year.

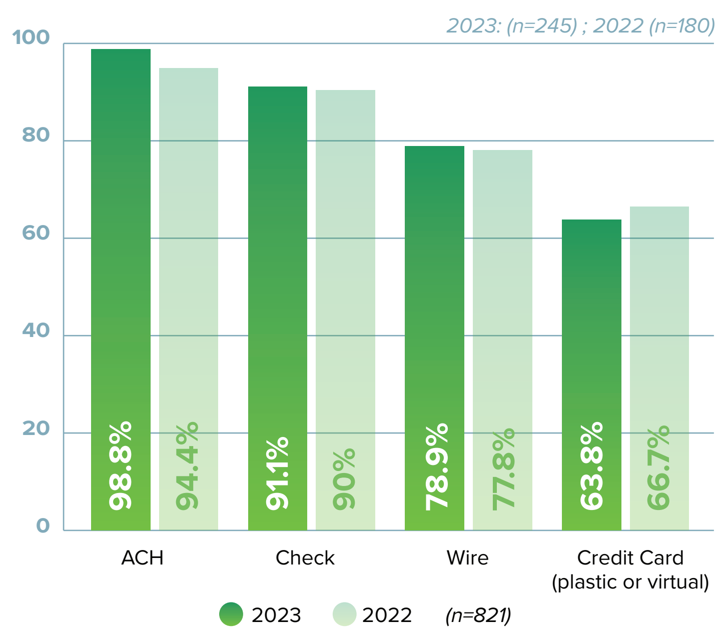
Similarly, the top digital payments obstacle for 60.2% of vendors is the perception that their customers are reluctant to move away from checks, which is slightly lower than last year (62.8%).

The second most cited obstacle preventing AP teams from using digital payments is their limited capacity to contact, enroll and maintain vendors. Many teams are just too stretched to take on these additional roles. The good news is that by working with an automation partner that offers managed services, AP teams can enjoy the benefits that digital payments offer, without assuming the time-consuming administrative tasks of vendor enrollment and management.

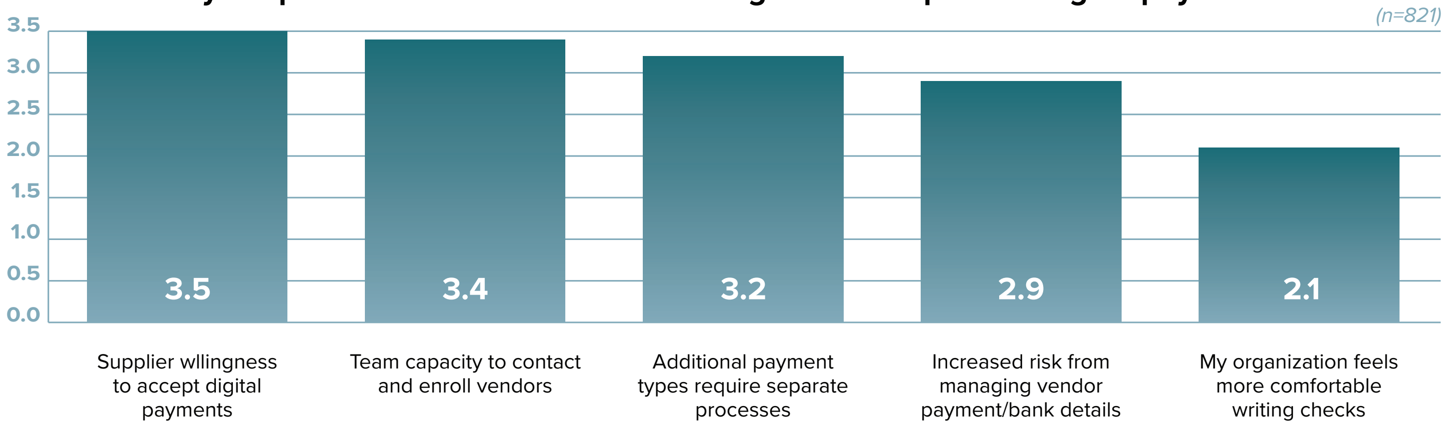
While finance leaders cite implementing separate payments for different payment types as the third leading obstacle, if they choose the right AP automation solution, no additional processes or added work is required.

The data underscored that vendors still overwhelmingly dictate payment terms. Only 15.1% of companies say that they would not use a vendor that doesn't accept digital payments.

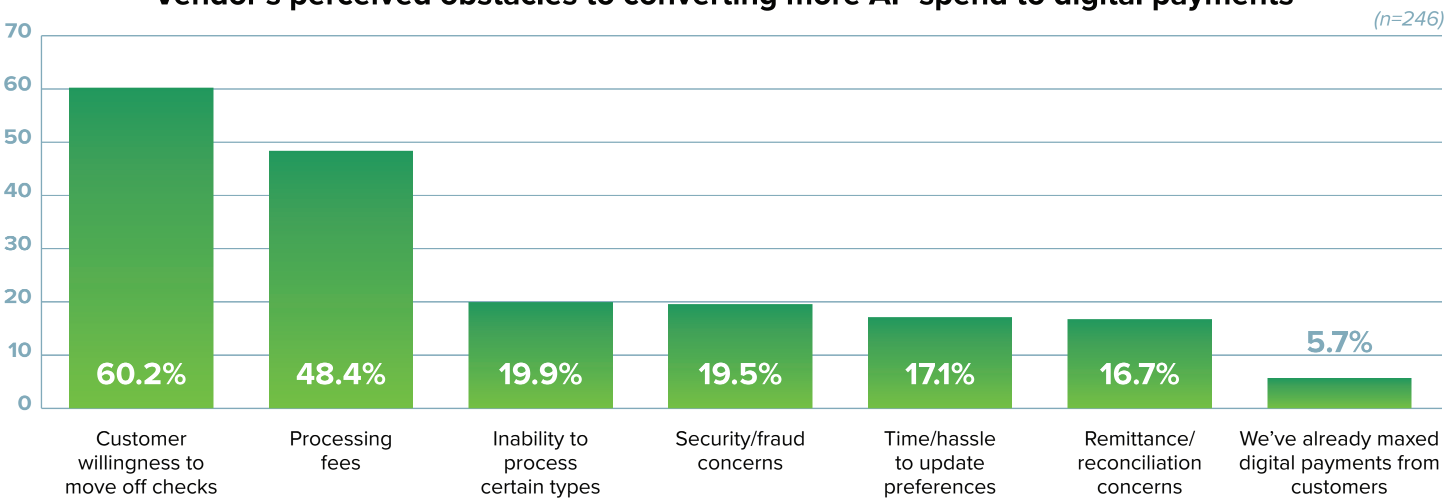
Current payment methods accepted by suppliers



Buyer's perceived obstacles to converting more AP spend to digital payments



Vendor's perceived obstacles to converting more AP spend to digital payments



Turbocharging Your AP Team

Finance leaders can leverage these market and peer insights to build strong AP teams that can withstand economic headwinds and support financial stability. Here are four key strategies to accomplish that:

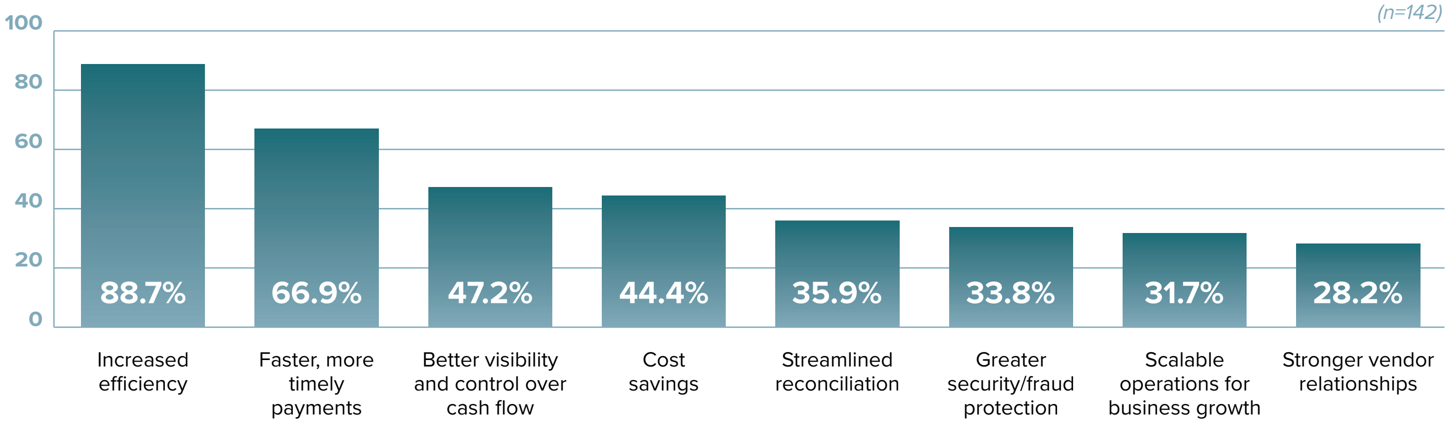
Don't hold back on automation.

AP automation has become the norm and will continue to grow as lean teams struggle to process growing volumes of invoices and payments with limited resources. If you haven't started automating yet, now's the time to begin. If you already automated some AP processes, extend the benefits by digitizing others. Only 20.3% of AP teams have fully automated their processes, so there's plenty of room for improvement.

Gain the synergies of end-to-end automation.

AP automation accelerates digital payment adoption. Teams with digitized AP processes increased ACH payments by 67.7%, and virtual card usage by 34.2%, while decreasing check payments by 57.3% (a 10% greater reduction in check usage compared with respondents who haven't automated AP). When companies automate AP it is easier for them to pay electronically, and the synergies they achieve across the entire invoice-to-pay process compound the benefits they receive. End-to-end automation increases efficiencies so they can do more with less according to 88.7% of finance leaders. It enables faster, more timely payments (66.9%) which helps keep vendors happy; provides greater visibility and control to manage cash flow more effectively (47.2%); reduces costs (44.4%), streamlines reconciliation (35.9%), and protects against fraud (33.8%).

Customer benefits from AP automation



Use managed payment services to enhance automation and remove key barriers to ePayment.

Managed payments services providers effectively onboard certain ePayment types and manage vendor relations so you can enjoy the increased efficiencies of digital payments without the administrative headaches. These services remove the burden of contacting, onboarding, and maintaining vendor relationships, as well as significantly increase the number of vendors receiving digital payments through ongoing outreach and continuous enrollment. Managed services also improve vendor relationships by addressing their payment inquiries quickly and effectively – and providing the human touch they are looking for.

Analyze spend and payments to optimize cash flow.

You can gain greater control over spend by analyzing invoice and payment data. For example, you can uncover ways to reduce spend by consolidating vendors, taking advantage of volume or early payment discounts, and timing your payments to maximize cash flow.

Position your team for success

The last few years have taught businesses and consumers alike to be prepared for the unexpected – whether it is a pandemic, bank failure, inflation and monetary volatility, supply chain challenges, or other surprises. Savvy finance leaders are turning to automation and digital payments to crisis-proof their AP function and gain the insight and agility they need to be successful in any economic or market environment. And at the same time, they are gaining the benefits of efficiencies, transparency, and control over one of their most important assets – their cash.

Be on the Lookout for BEC

Business Email Compromise (BEC) is a major cause of fraud, impacting 71% of companies in 2022, according to the 2023 AFP Payments Fraud and Control Report. In this all-too-common scam, the bad actor impersonates a vendor or company executive to access financial data, request changes to banking details, and/or receive fraudulent payments. Unfortunately, BEC emails are believable and create a sense of urgency because they are highly targeted and personalized. BEC techniques include sending a fake invoice to AP through a compromised company or vendor email account, or spoofing an email address to make it look like it is coming from a trusted source. Companies relying on manual processes are particularly at risk, given the potential for human error, and lack of automated processes and controls.