



9 Accounts Payable Metrics You Should Be Tracking

E-BOOK

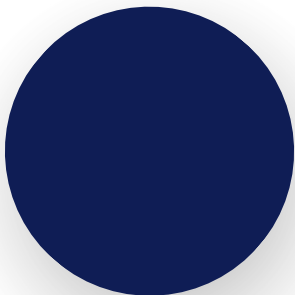


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Executive Summary

Accounts payable (AP) is a vital function in any organization, directly impacting cash flow, supplier relationships, and financial accuracy. However, inefficient processes, high costs, and manual errors can create unnecessary financial burdens and operational disruptions. To maintain a streamlined and effective AP function, businesses must track key performance metrics that highlight inefficiencies, cost-saving opportunities, and automation benefits.

ESSENTIAL AP METRICS

This ebook explores nine essential AP metrics that provide actionable insights for optimizing invoice management and payment cycles:

- **Invoice Processing Time** – Measures the time taken to process an invoice from receipt to payment, impacting cash flow and vendor relationships.
- **Cost Per Invoice Processed** – Evaluates the total expense incurred per invoice, helping organizations identify cost-saving opportunities.
- **Invoice Exception Rate** – Tracks errors and discrepancies that require manual intervention, affecting processing speed and accuracy.
- **Accounts Payable Turnover Ratio** – Assesses how efficiently a company pays its suppliers and manages short-term liabilities.
- **Invoices Processed Per Employee** – Determines the productivity and efficiency of AP staff.
- **Early Payment Discounts Captured** – Quantifies the percentage of available early payment discounts utilized, directly influencing cost savings.
- **Payment Error Rate** – Identifies payment inaccuracies such as duplicate payments, incorrect amounts, or wrong payees.
- **Late Payment Rate** – Measures the percentage of invoices paid past their due date, which can lead to financial penalties and strained supplier relationships.
- **Percentage of Straight-Through Invoices** – Evaluates the proportion of invoices processed without manual intervention, indicating the level of AP automation.

Read on to discover how these key metrics can help you assess and enhance your AP performance—and how automation can take your processes to the next level.

Metric #1

Invoice Processing Time

Invoice processing time measures how long it takes to process an invoice from receipt to payment. It impacts cash flow, supplier relationships, and the overall efficiency of the accounts payable department. A high invoice processing time can lead to late payments, strained vendor relationships, late fees, or missed early payment discounts.

To find the average number of days it takes your company to process invoices, add the number of days it takes to process each invoice received over a given period and divide by the total number of invoices.

FOR EXAMPLE

If your company processes 10,000 invoices in a month, and it takes a total of 25,000 days collectively to process them, the average invoice processing time would be 2.5 days (25,000 total processing days / 10,000 invoices).



Metric #2

Cost Per Invoice Processed

The cost per invoice processed is the average cost of processing a single invoice, including labor, technology, and overhead costs. This metric is important because it helps assess the efficiency and cost-effectiveness of accounts payable processes. A high cost per invoice may indicate inefficiencies, excessive manual processes, or a lack of AP automation.

Divide the total cost of the AP department (salaries, technology, overhead) by the total number of invoices processed over a given period. If the AP department incurs \$50,000 in costs and processes 10,000 invoices in one month, the monthly cost per invoice would be \$5 ($\$50,000 / 10,000$ invoices).

By monitoring this metric, businesses can identify opportunities to reduce costs and improve efficiency. Implementing [AP invoice automation](#) technologies, such as optical character recognition (OCR) and electronic invoice processing, reduces manual data entry and processing costs. Automation can also help businesses optimize workflows, accelerate the accounts payable process, and leverage early payment discounts to further reduce the cost per invoice.



Metric #3

Invoice Exception Rate

The invoice exception rate tracks the percentage of invoices that contain errors or discrepancies or require manual intervention before processing. A high invoice exception rate can lead to processing delays, increased costs, and payment errors.

Divide the number of invoices with exceptions by the total number of invoices processed, and multiply by 100. If 100 invoices out of 1,000 contain exceptions, the invoice exception rate would be 10% (100 invoices with exceptions / $1,000$ total invoices * 100).

Metric #4

Accounts Payable Turnover Ratio

The accounts payable turnover ratio measures how frequently a company pays its suppliers over a period, usually a year. It gauges the efficiency of the AP process and the company's ability to manage its short-term liabilities.

A higher turnover ratio suggests a company pays its suppliers more frequently, which is a sign of good financial health and strong supplier relationships. In contrast, a low turnover ratio may show that a company struggles to pay on time, which can strain relationships and bring about supply chain disruptions.

To calculate the accounts payable turnover ratio, divide your total supplier purchases by the average accounts payable balance over the period.

Your procurement software can help you determine the total supplier purchases. Average accounts payable is the average of the beginning and ending AP balance for the period, calculated as follows:

$$\text{AVERAGE ACCOUNTS PAYABLE} = \frac{\left(\text{BEGINNING ACCOUNTS PAYABLE} + \text{ENDING ACCOUNTS PAYABLE} \right)}{2}$$

FOR EXAMPLE

If a company's average accounts payable balance is \$100,000 and its total supplier purchases is \$1,825,000 for the year, the accounts payable turnover ratio would be:

$$\text{Accounts Payable Turnover Ratio} = 1,825,000 / 100,000 = 18.25$$



Metric #5

Number of Invoices Processed Per Employee

The number of invoices processed per employee helps businesses measure accounts payable performance and the productivity and efficiency of the AP department. It provides insight into the workload and performance of individual AP team members and reveals opportunities for process improvements or automation.

Divide the total number of invoices processed by the number of full-time equivalent (FTE) employees in the AP department over a given period. For example, if the AP department processes 10,000 invoices monthly with 5 FTE employees, the number of invoices processed per employee would be 2,000 (10,000 invoices / 5 FTE employees).

Metric #6

Early Payment Discounts Captured

Suppliers often offer early payment discounts to incentivize customers to pay invoices before the due date. These discounts often range from 1% to 3% of the invoice value, which can add up to significant cost savings over time. The early payment discounts captured metric measures the percentage of available discounts the company successfully captures.

Divide the total value of early payment discounts captured by the total value of early payment discounts available and multiply by 100. For example, if a company captures \$10,000 in early payment discounts out of \$20,000 available, the early payment discounts captured percentage would be 50% ($\$10,000 \text{ captured} / \$20,000 \text{ available} * 100$).



Metric #7

Payment Error Rate

The payment error rate measures the percentage of payments that contain errors, such as incorrect amounts, wrong payees, or duplicate payments. Payment errors can lead to financial losses, strained supplier relationships, and additional administrative work to correct the issues.

Divide the number of payments with errors by the total number of payments made and multiply by 100. If ten payments out of 1,000 contain errors, the payment error rate would be 1% (10 payments with errors / 1,000 total payments * 100).



Metric #8

Late Payment Rate

The late payment rate measures the percentage of invoices paid after their due date. Late payments may result in late fees and can damage the company's credit standing.

Divide the number of invoices paid late by the total number of invoices paid, and multiply by 100. For example, if 50 invoices out of 1,000 are paid late, the late payment rate would be 5% (50 late invoices / 1,000 total invoices * 100).

Metric #9

Percentage of Straight-Through Invoices

The percentage of straight-through invoices measures the proportion of processed invoices that are paid without manual intervention or corrections. Straight-through processing (STP) is an automated, end-to-end process that enables invoices to be received, validated, and paid without AP intervention. A higher percentage of straight-through invoices indicates a more efficient and streamlined AP process.

Divide the number of invoices processed without manual intervention by the total number of invoices processed, and multiply by 100. For example, if 800 invoices out of 1,000 are processed straight-through, the percentage of straight-through invoices would be 80% (800 straight-through invoices / 1,000 total invoices * 100).

