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The E-Payables Benchmark Report

Advancing Accounts Payable Automation

March 2007

— Underwritten, in Part, by —



The global e-Invoicing network

Executive Summary

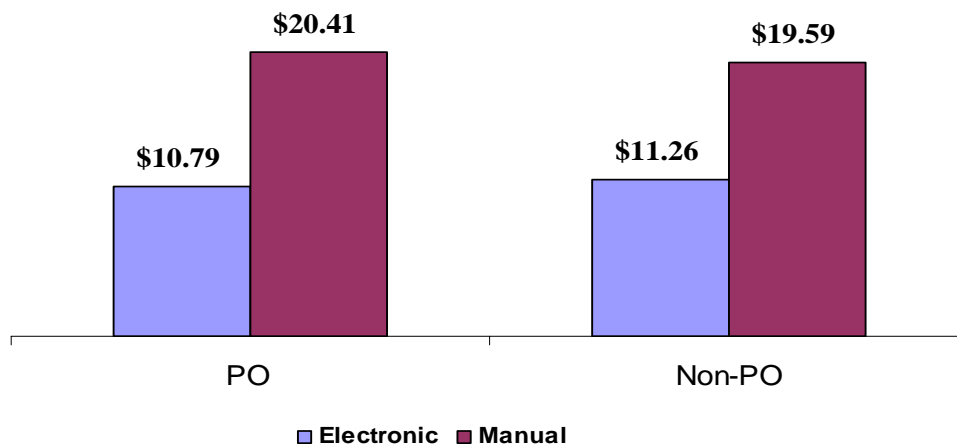
The typical accounts payable (“A/P”) department, with its heavy reliance on paper and manual effort, sits in stark contrast to today’s business environment that is relentless in its pursuit of process efficiencies and cost reductions. And, with business relationships becoming increasingly complex, the lack of visibility into spend/invoice data, exacerbated by a voluminous paper trail, serves as a true Achilles’ heel to those enterprises that proclaim operational excellence within either their finance or source-to-settle processes.

Best in Class Performance

Aberdeen has evaluated over 320 A/P programs between December 2006 and March 2007 and distinguished Best in Class companies by the percentage of electronic transactions received, processed and paid, as well as several other key performance metrics. Best in Class enterprises in this study are notable for their success utilizing automation to drive performance within their A/P departments. They report the following advantages:

- **91%** lower invoice-processing costs
- **46%** shorter process cycle time
- **12%** fewer late payments
- **30%** less time responding to inquiries

Figure 1: PO and Non-PO based Invoice Processing costs



Clear and compelling cost savings are achieved by A/P departments that invest in automation (Figure 1). Managers who automate the key department processes also report that improved cash flow visibility and stronger supplier relations is enabling their transformation.



Competitive Maturity Assessment

Survey results show that the firms enjoying Best in Class performance shared several common characteristics with respect to their A/P management strategy, including:

- Full A/P automation - *600% more likely than all others*
- Higher levels of contract management automation enabling closer alignment with the procurement organization - *25% more likely than all others*
- A focus on automating the highest labor-intensive activities - *35% more likely than all others*

Required Actions

In addition to the specific recommendations in Chapter Three, to achieve Best in Class performance, enterprises must:

- Move toward a fully automated environment that integrates A/P with existing procurement and financial systems
- Establish a linkage between your A/P goals and objectives and the broader goals of the finance and procurement groups and then build a business case for automation that incorporates a complete view of the source-to-settle process and heavy involvement from your finance leadership
- Develop disbursement strategies in concert with your treasury and finance teams that seek to optimize working capital; regularly audit your payment performance based upon the key goals and objectives of the treasury group
- Leverage data visibility to drive performance improvement across the enterprise. The invoice data should be used to improve leverage in contract negotiations with suppliers, to ensure proper receipt of volume discounts and rebates, to reduce payment errors and overcharges, and to provide the basis for making working capital decisions
- Increase collaboration with IT to assist in the development of a portfolio strategy to best manage an array of electronic receipt and payment methods



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Chapter One: Benchmarking the Best in Class

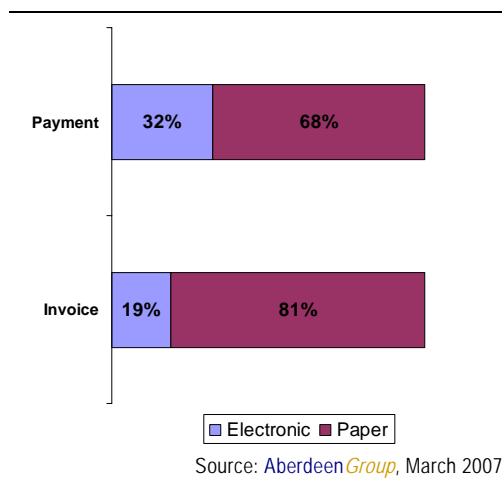
Fast Facts

- Over 60% of enterprises lack visibility into the primary A/P spend and invoice data
- 40% of respondents indicate they have the budget and intent to invest in A/P automation solutions in the next for 12 months.
- Paper invoices cost **74% to 89% more** to process than electronic invoices

The U.S. Postal Service recently announced that it is considering raising its rates on stamps for first-class mail. The proposed rate increase will be the fifth in seven years and a 21% total increase since the beginning of the decade. For most, it was another “dog bites man” story, but for philatelists and regrettably, for managers in accounts payable, who still mail a majority of their payments (Figure 2), it was headline news. Consider:

1. Paper invoicing averages persist in the **80%** range, while paper payment averages hover around **65%**.
2. **60% to 70%** of all enterprises note a lack of visibility across many key aspects of the A/P process. This presents an Achilles’ heel to enterprises trying to mitigate risk in an increasingly complex and rapidly changing environment.
3. Less than one-third of all enterprises fully automate key sub-processes within A/P.

Figure 2: The A/P Paper Chase



Maturity Framework Key

The Aberdeen Competitive Framework defines enterprises as falling into one of the three following levels of practices and performance:

Best in Class (20%)—practices that are the best currently being employed and significantly superior to the industry norm

Industry Average (50%)—practices that represent the average or norm

Laggard (30%)—practices that are significantly behind the average of the industry

Maturity Framework

While A/P operations have typically lagged other functional areas in its use of automation to streamline processes and enable broad transformation, leading enterprises have made significant strides to close the gap. Aberdeen used key performance criteria to distinguish Best in Class companies from Industry Average and Laggard organizations. These key performance indicators (KPIs) are a blend of *process measures* – percentage of electronic disbursements, percentage of electronic invoices received, and



invoice processing costs. Table 1 summarizes the findings and highlights the average performance of enterprises within the different maturity classes for this study

Table 1: Accounts Payable Benchmark Performance

Maturity Class	Average Performance
Best in Class: Top 20% of aggregate performance scorers	<ul style="list-style-type: none"> • \$1.50 to \$2.00 cost to process an invoice • 34.9% electronic disbursements • 21.5% electronic invoices
Industry Average: Middle 50% of aggregate performance scorers	<ul style="list-style-type: none"> • \$10.54 cost to process an invoice • 31.0% electronic disbursements • 17.9% electronic invoices
Laggard: Bottom 30% of aggregate performance scorers	<ul style="list-style-type: none"> • \$58.09 cost to process an invoice • 28.8% electronic disbursements • 16.2% electronic invoices

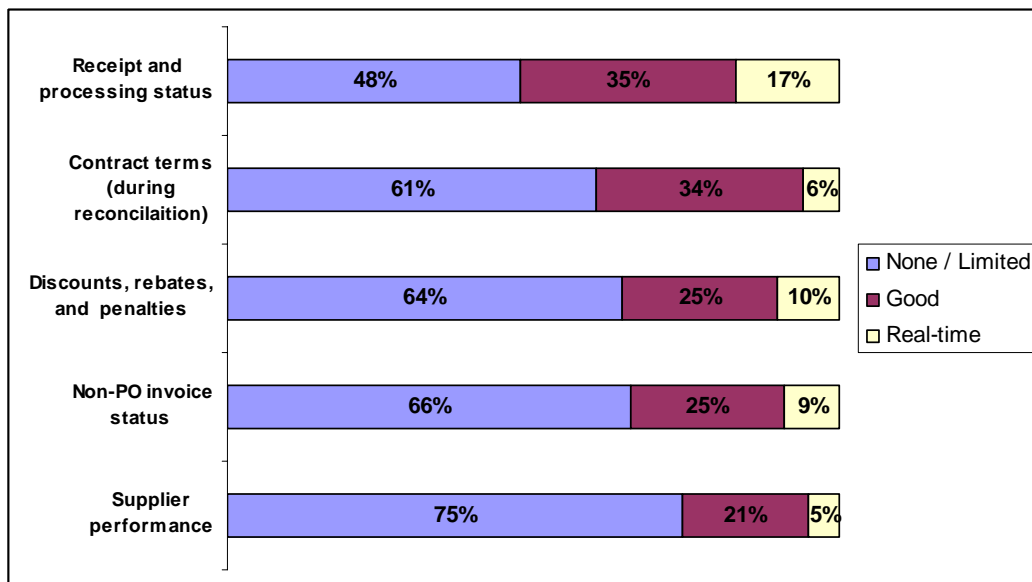
Source: Aberdeen Group, March 2007

The lack of visibility during the A/P process (Figure 3) begets higher transaction costs and longer cycle times. It also erodes the business' bottom line, manifested in an inability to readily identify billing errors, overpayments, unclaimed discounts, and other transactional information that impacts an income statement. This lack of visibility also cascades into lost opportunities across other parts of the enterprise including:

- **Treasury**, which is unable to make optimal working capital decisions
- **Procurement**, which is unable to identify negotiation leverage opportunities with suppliers, track supplier billing performance, and ensure payments are compliant to contracts
- **Suppliers** and internal stakeholders who are unable to track invoice processing status

“While our IT group created a website for suppliers to login and view their invoice status, we have no internal reporting capabilities. Individual departments are left to track their own payables status and performance. Our A/P department must rely on the divisions to tell us if we have paid too much or too little.” – Manager of Finance, US-Based Multi-billion Dollar Retailer

Figure 3: Lack of Visibility Translates to Lost Opportunities for All Stakeholders



Source: Aberdeen Group, March 2007

Best in Class PACE Model

We have shown that there is a clear relationship between the pressures companies identify and the actions they take, and their subsequent competitive performance. All participants should examine their prioritized PACE selections and determine whether there are valuable perspectives to be gleaned by comparison with the PACE priorities of Best in Class companies.

“We developed a program called ‘First Time Right’ to track our performance. We have improved, but 50% of our PO-based invoices have to be touched a second time.”

- A/P Manager, Large Enterprise

Table 2: Best in Class PACE Framework

Pressures	Actions	Capabilities	Enablers
<ul style="list-style-type: none"> • Lower invoice processing costs • Gain visibility into invoice data 	<ul style="list-style-type: none"> • Extend A/P Automation with focus on labor-intensive activities • Integrate purchasing, payables, and treasury decision-making 	<ul style="list-style-type: none"> • “Touchless” matching and exception management • Automated workflows • Automated approval routing • Visibility that translates into <ul style="list-style-type: none"> ○ Financial-based disbursement decisions ○ Negotiation leverage 	<ul style="list-style-type: none"> • E-invoicing • Scanning and workflow • P-cards • Spend analytics for invoices • Reporting capabilities • Invoice dashboard or portal • Invoicing and payment networks



Aberdeen Insights – Part 1

Aberdeen's E-Payable Framework

Aberdeen utilizes a four-part solution framework to help A/P managers better define their current state and identify logical areas for improvement. The four areas are:

1. Receipt: Electronic invoice receipt may occur in any one of numerous formats – EDI, .xml, or other file formats including credit card statements, evaluated receipt settlement, web-based order/invoice creation, or PO Flip. A distinguishing characteristic for EIPP is that receipt (as with settlement) may be enabled via a supplier or trading network.
2. Approval & Inquiry: Once received, an invoice may be processed utilizing rule-based logic that analyzes certain invoice attributes (supplier, amount, buying entity, etc.) to define the proper routing and approval workflow. Notification/alert capabilities as well as direct integration to transactional systems are used to track invoice status and identify issues.
3. Validation & Reconciliation: The verification of invoice accuracy and the resolution of any errors, discrepancies, or disputes prior to payment are accomplished by automated matching engines, collaboration with suppliers and internal end users, and integration to transactional systems. The information captured in this segment is used for audits (internal & external) as well as spend analysis.
4. Settlement: After the efficient capture, tracking, and approval of enterprise liabilities, the next step is payment processing, utilizing a payment method that may include EFT, ACH, card or supplier/trading networks. Capabilities like dynamic discounting, rebates, tax management, and trade financing are available in advanced solutions to optimize the management of cash flow.

Benefits: The more comprehensive level of A/P automation translates into lower transaction costs. Other benefits include the improved resource productivity, stronger controls, fewer errors, better payment performance, reduced cycle times, and improved visibility into the valuable spend and supplier data processed by A/P. Available solutions may address one, some, or all of the above areas.

Chapter Two: Requirements for Success

Fast Facts

Best in Class enterprises outperform their peers on many fronts. They report:

- 91% lower invoice processing costs
- 46% shorter process cycle times
- 12% fewer late payments
- 30% less time responding to inquiries
- 600% greater investment in holistic A/P automation solutions

Accounts Payable departments have a unique opportunity in the next 12 months to commence a plan for transformation. They can easily borrow the blueprint for their plan from their colleagues in procurement, an organization that has utilized technology over the past decade as a key enabler to move from back office cost center to a department that enterprises now rely upon to deliver strategic value.

Competitive Maturity Assessment

Survey respondents fell into one of three categories – Laggard, Industry Average, or Best in Class – based on their characteristics in five key categories: 1) **Process** – The level of process and scope the A/P department has defined for their current processes; 2) **Organization** – Organizational structure, skills, and alignment with the complementary function within the enterprise. Additionally, the inclination and/or capability to leverage outside support or outsource certain areas within the group; 3) **Knowledge** – Program visibility into KPI’s (DPO, exception rate, cost of invoice processing, and other key measures); and 4) **Technology** – Level of A/P automation and how well it is integrated to transactional systems and how it supports the broader “Source-to-Settle” framework. Best in Class A/P departments are overhauling their organizations by redefining the scope and focus of the function and gaining broader alignment with other departments. These leaders indicate that automation has been their key enabler to their bottom line improvement and the increase in the A/P organization’s visibility across the enterprise. We believe that all readers can use this framework (Table 3) to more specifically assess their own organization’s payables “maturity” and thereby determine which actions (see Chapter 3) they must take to improve their overall performance

Figure 4: A/P Staff – Time Responding to Inquiries

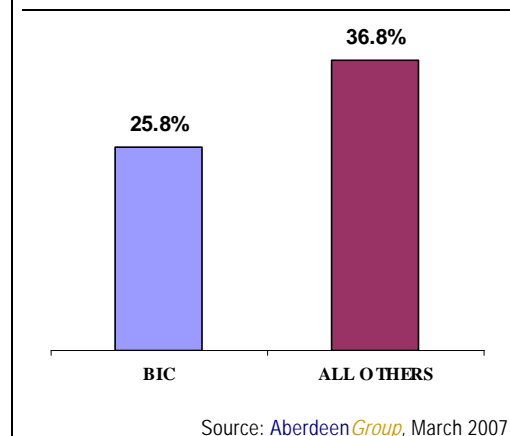




Table 3: Competitive Framework

	Laggards	Average	Best in Class
Process	Cycle time to process an invoice and schedule a payment		
	22.8 days	22.1 days	11.9 days
	Resource time spent responding to inquiries		
	41.1%	32.2%	25.8%
	Late Payments		
	13.8%	13.2%	12.0%
Organizational Structure	Fully outsource the A/P function		
	0%	0%	11%
Knowledge/ Data Management	Contract repository is partially or fully automated		
	19%	44%	34%
Technology Usage	Accounts Payable Automation		
	• 4% utilize Electronic Invoice Presentment and Payment (EIPP)	• 6% utilize Electronic Invoice Presentment and Payment (EIPP)	• 29% utilize Electronic Invoice Presentment and Payment (EIPP)
	• 38% utilize P-cards	• 28% utilize P-cards	• 29% utilize P-cards
	• 11% utilize Invoice Imaging	• 4% utilize Invoice Imaging	• 19% utilize Invoice Imaging
	• 15% enable electronic invoices (EDI, .xml, etc)	• 18% enable electronic invoices (EDI, .xml, etc)	• 24% enable electronic invoices (EDI, .xml, etc)
	• 35% use web-based payment scheduling/tracking (not dynamic discounting)	• 29% use web-based payment scheduling/tracking (not dynamic discounting)	• 45% use web-based payment scheduling/tracking (not dynamic discounting)
	• 11% utilize Contract Lifecycle Mgmt	• 16% utilize Contract Lifecycle Mgmt	• 16% utilize Contract Lifecycle Mgmt
	• 7% utilize Spend Analysis (for invoices)	• 14% utilize Spend Analysis (for invoices)	• 15% utilize Spend Analysis (for invoices)

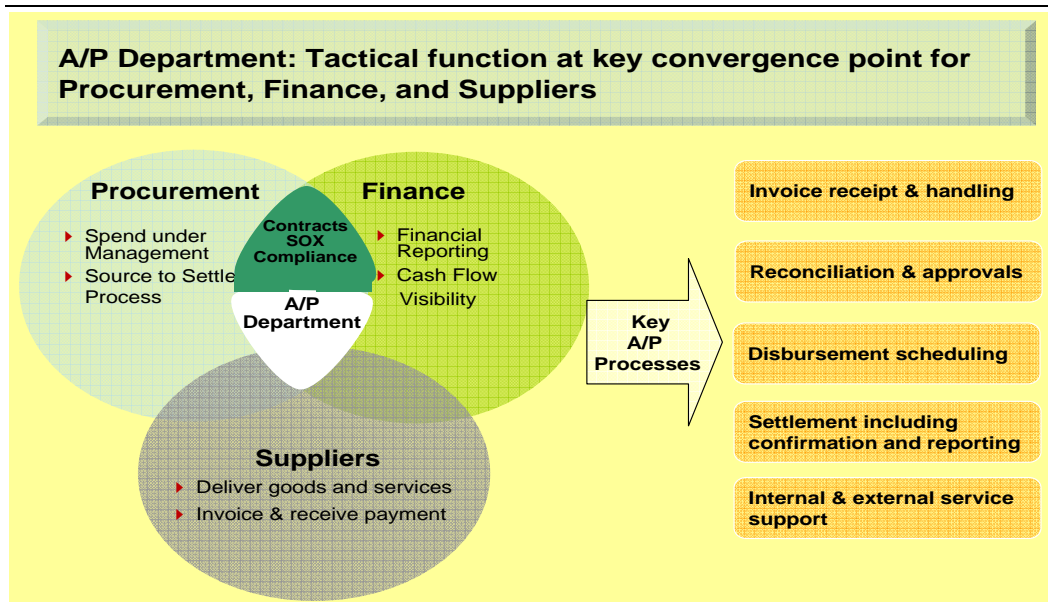
Source: [Aberdeen Group](#), March 2007

Organizational Capabilities and Technology Enablers

Operational excellence within the source-to-settle process cannot occur without strong process and technology linkages between procurement and accounts payable. Best in Class A/P departments are clearly defining the scope of their activities (Figure 5) and are:

- Engaging in a dialogue with treasury to proactively manage working capital
- Utilizing a portfolio of electronic payment methods including marketplaces, p-cards, ACH, EDI and other electronic formats
- Tracking performance and identifying bottlenecks in the process to optimize early-pay discounts and avoid penalties
- Working to streamline and automate their audit process
- Working closely with procurement to:
 - Establish systems or processes to monitor contract compliance and better understand payment terms
 - Provide feedback on the invoice accuracy of suppliers

Figure 5: Accounts Payable Hub



Source: AberdeenGroup, March 2007

“After we finish upgrading our e-procurement system, we are moving to e-invoicing and focus on moving large vendors to ‘PO flipping.’ We want to be there in 18 months. We hope to see huge benefits from having strong electronic payment methods including advanced discounting, that will allow vendors to apply discount terms. Only 4% of vendors currently offer us discounts. We have \$55 billion of spend so this is going to be a long-term prize once implemented.

- Manager of Global E-Solutions, CPG Industry



Aberdeen Insights – Part 2

Purchasing cards

Overview: Developed as an alternative to petty cash and paper-based check request processes, large corporations adopted individual corporate procurement cards as a way to better manage higher volume, low dollar transactions. Today, purchasing cards continue to be used as a low cost, efficient, electronic payment method for small dollar transactions but increasingly, enterprises are expanding their usage - to address numerous master agreements and pricing contracts, purchase order initiated transactions, and project or recurring services purchases. The cards may be integrated into mainstream business activities and systems for groups such as payables, finance, and purchasing using targeted applications and data management techniques. The level of detail provided by different card programs varies, but increasingly there is an understanding of the overall importance of having “Level 3” data is the level of detail that you would typically find on an invoice including item price, description, and quantity, as well as sales tax amounts and supplier and buyer information.

Benefits: Purchasing cards can provide greater employee convenience and superior spend and invoice visibility for your low-value purchases. Transaction cost efficiencies and an opportunity to leverage supplier discounts and rebates are also benefits. Well-run card programs also enable flexible spending controls, strong audit capabilities, and the ability to leverage the invoice data in supplier negotiations.

Usage: While this solution is used by 29% of Best in Class enterprises, 38% of Laggards also use P-cards. It is clear that just having a P-card does not guarantee clear success. Successful programs are those that:

- Utilize electronic program reporting and online statement delivery
- Are used to complement other electronic payment methods
- Have policies that are clear and well-communicated

While Aberdeen [research](#) has shown the benefits of a well-run P-card program, large and mid-market enterprises should not view P-cards as an end game in A/P automation.

Chapter Three: Required Actions

Fast Facts

- Use the savings benefits from A/P automation as the basis for your business case for a comprehensive solution. Projects that take an incremental approach should prioritize the areas of highest manual effort.
- Utilize invoice visibility to improve leverage in contract negotiations with suppliers, to ensure proper receipt of volume discounts and rebates, and to reduce payment errors and overcharges.
- Engage treasury to develop a disbursement process that employs financial analysis to streamline payment planning and optimize working capital.

Accounts Payable managers must work aggressively to reposition their department from ‘back office’ sinkhole to a bedrock foundation of the source-to-settle process and working capital management. The actions taken should be positioned as part of a broader strategic initiative to transform the A/P function. Aberdeen recommends the following strategies for the best results:

Laggard Steps to Success

1. Adopt A/P automation solutions that are focused on your most labor-intensive activities

If you cannot make the case for full A/P automation, start with investment in automating those activities that require the highest amount of manual effort. Focus on the front end of the A/P process and consider deploying an invoice conversion technology or service. P-card programs, when deployed using a series of very strict measures (see *Aberdeen Insight #2*), can be an effective way to begin managing your spend and capturing invoice details in a controlled manner.

2. Consider leveraging external expertise from a payables outsourcing firm

Given limited visibility, it may be difficult to perform a total cost of ownership evaluation on your A/P department. However, Aberdeen research has shown that outsourcing all or part of the function can deliver immediate value. A/P outsourcing specialists can take over all or part of your function to accelerate your A/P transformation and provide greater visibility. Additionally, in a paper-driven environment, the opportunities for errors are significant - post payment audit recovery services can present a compelling ROI.

3. Redefine the Accounts Payable function

Processes must be aligned and well-defined to maximize the return on technology investments. Aberdeen believes that enterprises should view the A/P function in a holistic manner and define a clear scope of activities including invoice receipt and handling, reconciliation and approvals, disbursement scheduling, settlement including confirmation and reporting, and customer service.



Industry Average Steps to Success

1. Move to complete Accounts Payable automation - focus on visibility

As you gain greater visibility into your process, develop baseline metrics and seek regular process improvements. As you gain visibility into pricing, terms, and payment cycle information, develop reports that aggregate and analyze this data and share them with procurement, finance, and business stakeholders.

2. Work with treasury and other finance executives to build your business case for automation

Developing a wider consensus among the different finance leaders for an investment in A/P can help expedite a decision while strengthening the relationship of A/P with other areas of finance. Treasury should be engaged as early as possible in the process to assess and/or validate the enterprise returns on a proactive working capital management program

3. Involve procurement in your strategic planning

Involve procurement in the development of your overall A/P automation strategy to ensure alignment with existing procurement technologies. Develop a proactive dialog and strong lines of communication with procurement and begin to regularly review contract terms/conditions and compliance metrics. Set regular meetings to review the best way to utilize invoice/spend data in strategic sourcing initiatives and communicate supplier billing performance.

4. Partner with IT to develop a global approach

Leverage IT's expertise to help you develop a "portfolio" approach that seeks to optimize the usage of different platforms like EDI, .xml and other file formats, as well as the usage of electronic marketplaces, supplier networks or portals and PO flip, that can be used to conduct electronic transactions. Seek IT (and Treasury) input on disbursement platforms/methods as well.

"In regards to compliance, we need to invest in training to educate our employees to use the proper purchasing solution. Right now, we have no way to ensure that they buy from the right supplier much less use the right payment form" -

Finance Manager & Card Program Leader, Financial Services

Best in Class Next Steps

1. Move toward a fully automated environment that integrates A/P with procurement and financial systems

The business case for automation should incorporate a complete view of the source-to-settle process. Establish a linkage between your A/P goals and objectives and the broader goals of the procurement and finance groups.

2. Develop disbursement strategies in concert with your Treasury and Finance teams

Utilize technology as a platform to review your payment programs and strategies and engage in a proactive dialogue with the treasury group on optimizing working capital. Regularly audit your payment programs to evaluate overall performance based upon the key goals and objectives of the treasury group. Investigate the trade services and working capital solutions provided by financial institutions as well as the use of dynamic discounting available in some solutions.

3. Leverage data visibility across the enterprise

When shared across functions, visibility into A/P data can have an extremely powerful impact and drive performance improvement across the enterprise. The data can be leveraged to improve leverage in contract negotiations with suppliers, to ensure proper receipt of volume discounts and rebates, to mitigate against payment errors and overcharges and to provide a basis for making working capital decisions.



Featured Underwriters

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Andrew Bartolini is a Supply Management professional with rich experience in strategic sourcing, business process transformation, and software implementation. As a leader at several solution providers, Bartolini managed the design and implementation of strategic sourcing and procurement processes for companies in the retail, manufacturing, energy, technology, transportation, defense, and finance sectors. He has also managed strategic sourcing projects exceeding \$500 million in total value across a broad range of direct and indirect categories. His recent focus has been in identifying and leveraging world-class technologies to achieve operational excellence within the finance and procurement functions of Fortune 500 companies. His background also includes extensive transactional and analytical experience while working in management consulting and investment banking.

Appendix A: Research Methodology

Between November 2006 and March 2007, *AberdeenGroup* benchmarked the Accounts Payable strategies, experiences, and intentions of more than 320 enterprises across multiple industries and geographies.

This benchmark report utilized Aberdeen's fact-based research approach to provide a comprehensive framework for Procurement and Finance executives and other stakeholders to benchmark the effectiveness of their current A/P operations, quantify their impact, and identify actionable strategies for improvement.

Responding professionals completed an online survey that included questions designed to determine the following:

- The maturity and scope of Accounts Payable Operations and how they fit within broader compliance and supply management initiatives
- The performance of different A/P department structures considering whether or not all or a portion of the function is outsourced.
- Those A/P processes that best lend themselves to outsourcing while quantifying the potential benefits that can be achieved in doing so.
- Emerging best practices to benchmark A/P performance in such areas as the cost to process payments, discount capture percentage, exception management, and Days Payables Outstanding (DPO)

Aberdeen supplemented this online survey effort with telephone interviews with select survey respondents, gathering additional information on A/P strategies, experiences, and results.

Responding enterprises included the following:

- **Job function:** The research sample included respondents with the following job functions: finance (40%), procurement and supply chain (23%), business process management (11%), and IT (10%).
- **Job title:** The research sample included respondents with the following job titles: CEO or president or other C-level (20%), vice president (9%), director (20%), and manager (32%)
- **Industry:** The research sample included respondents from finance (19%) and high tech (16%) and then broadly distributed across 30 other industries.
- **Geography:** 66% of the research respondents were from North America, 19% were from Europe, Middle East & Africa and 15% were from Asia-Pacific.
- **Company size:** 37% of respondents were from large enterprises (annual revenues above US\$1 billion); 35% were from midsize enterprises (annual revenues between \$50 million and \$1 billion); and 28% of respondents were from small businesses (annual revenues of \$50 million or less).



Table 4: PACE Framework

PACE Key
<p>Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:</p> <p><i>Pressures</i> — external forces that impact an organization’s market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive)</p> <p><i>Actions</i> — the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product/service strategy, target markets, financial strategy, go-to-market, and sales strategy)</p> <p><i>Capabilities</i> — the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products/services, ecosystem partners, financing)</p> <p><i>Enablers</i> — the key functionality of technology solutions required to support the organization’s enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)</p>

Source: Aberdeen Group, March 2007

Table 5: Competitive Framework

Competitive Framework Key
<p>The Aberdeen Competitive Framework defines enterprises as falling into one of the three following levels of accounts payable practices and performance:</p> <p><i>Best in class (20%)</i> — A/P practices that are the best currently being employed and significantly superior to the industry norm, and result in the top industry performance.</p> <p><i>Industry norm (50%)</i> — A/P practices that represent the average or norm, and result in average industry performance.</p> <p><i>Laggards (30%)</i> — A/P practices that are significantly behind the average of the industry, and result in below average performance</p>

Source: Aberdeen Group, March 2007

Table 6: Relationship Between PACE and Competitive Framework

PACE and Competitive Framework How They Interact
<p>Aberdeen research indicates that companies that identify the most impactful pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute.</p>

Source: Aberdeen Group, March 2007

Appendix B: Related Aberdeen Research

Related Aberdeen research that forms a companion or reference to this report includes:

- [*Accounts Payable: Strategies for Success*](#) (December 2006)
- [*The Invoice Reconciliation & Payment Benchmark Report*](#) (June 2006)
- [*Source-to-Settle: Compliance Clues for the CFO*](#) (October 2006)
- [*CPO's Strategic Agenda: Managing People Managing Spend*](#) (November 2006)
- [*Corporate Payment Cards Benchmark*](#) (August 2006)
- [*The CPO's Agenda: A Measuring Stick*](#) (February 2006)

Information on these and any other Aberdeen publications can be found at www.Aberdeen.com.

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