Pinnacle
FINANCIAL PARTNERS

2021 The 6th Annual State of AP Report

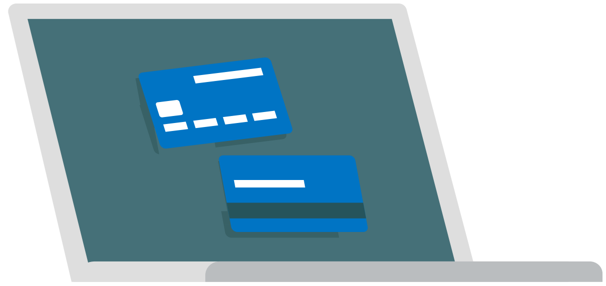
Perceptions, Practices and a Preview of Where We're Headed

Executive Summary

The COVID-19 pandemic has impacted business in many ways, and none more critical than accelerating the trend of digitization. Work-from-home mandates quickly exposed the problems of manual processes, and the pain was felt acutely in finance, where staff had to go into the office to pick up invoices and physically route them for processing, approvals, and check signatures. At the same time, the strategic importance of Accounts Payable (AP) was elevated as organizations recognized the need for prompt supplier payments in order to keep goods and services flowing.

For the sixth consecutive year, Pinnacle's AP Automation partner MineralTree surveyed a wide range of finance professionals for its **State of Accounts Payable Report**. This 2021 edition is unique in that it explores how a once-in-a-lifetime event has left its mark on finance organizations. What's important to recognize, though, is that the problems uncovered, and insights gained, during the pandemic are not fleeting, but rather will have a lasting effect on finance and AP.

As hybrid work becomes established policy, finance teams are under pressure to fix the inefficiencies and payment delays that manual processes cause. Unless something is done, these problems will only get worse given that the volume of supplier payments



has increased for many organizations, while their dependence on steady, reliable supply chains has grown. Due to these trends, most finance leaders have moved AP digitization – which typically has been overlooked – to the top of their priorities.

While the goal to digitize finance is gaining traction, many organizations, unfortunately, still have a long way to go, particularly when it comes to payments. Checks are still predominant, even though ease-of-use was cited as the number one factor in choosing payment methods. Additionally, while businesses desire to make more electronic payments, they will have to overcome barriers, including supplier willingness and their team's capacity to manage the enrollment process.

We also questioned finance professionals about their adoption of AP automation platforms. Most are in the beginning stages, with the mid-market trailing behind, and end-to-end automation, lagging further still. Interestingly, the survey reveals that using an AP automation platform accelerates the shift to digital payments; yet, the number one barrier to adoption is the belief that current processes work. Inertia, it seems, is the biggest obstacle to reaching the tipping point of B2B electronic payments.

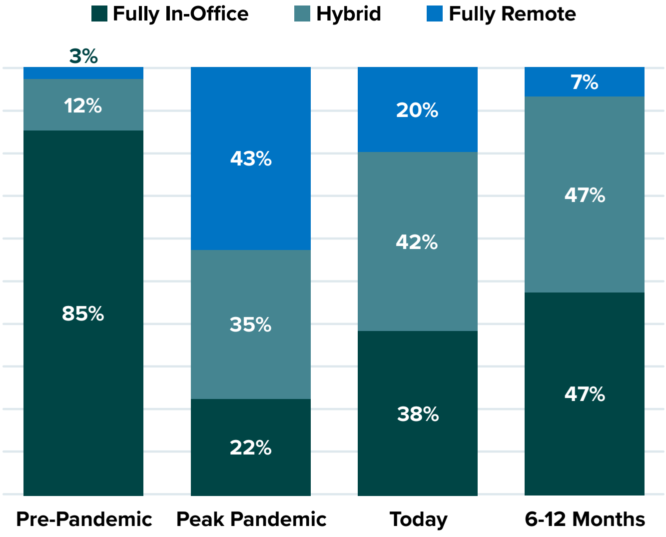
On the plus side, more finance leaders are recognizing the significance of AP, making automation a priority, and are pushing for greater digital payments. No matter where organizations are on the digital journey, they are motivated to improve their processes, and can use this report to shed light on

Key Findings

The Pandemic is Leaving a Lasting Legacy on Finance

Against a backdrop of work-from-home mandates and supply chain fragility caused by the pandemic, the survey highlights finance leaders' awareness of the inefficiencies and drawbacks of manual AP processes, and their desire to digitize. The survey also sheds light on organizations' changing workplaces, which further drives their interest in, and need for, automation.

How the Work Environment Has Evolved for Finance Teams



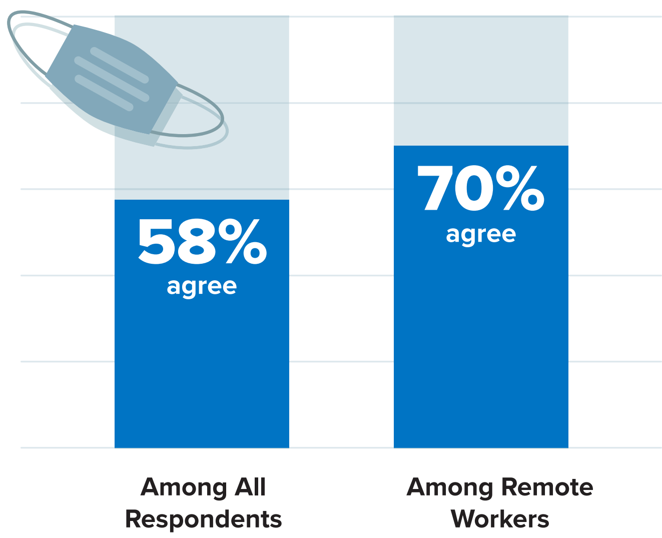
Hybrid work has become a permanent reality

Prior to the pandemic, 85% of finance teams reported working fully in the office. At the pandemic's peak, that number shrunk to 22%, with 43% remote and 35% hybrid. Today, 62% of finance teams are either remote or hybrid and 6-12 months from now, that number is expected to hold strong at 54%. Since all market indicators point to the hybrid work environment remaining for quite some time, the problems organizations experienced with manual processes will also stick around. Given this, it makes sense that finance leaders are eager to fix these problems and gain the efficiencies, visibility, control, and other benefits that automation provides.

COVID was a catalyst for back-office digitization

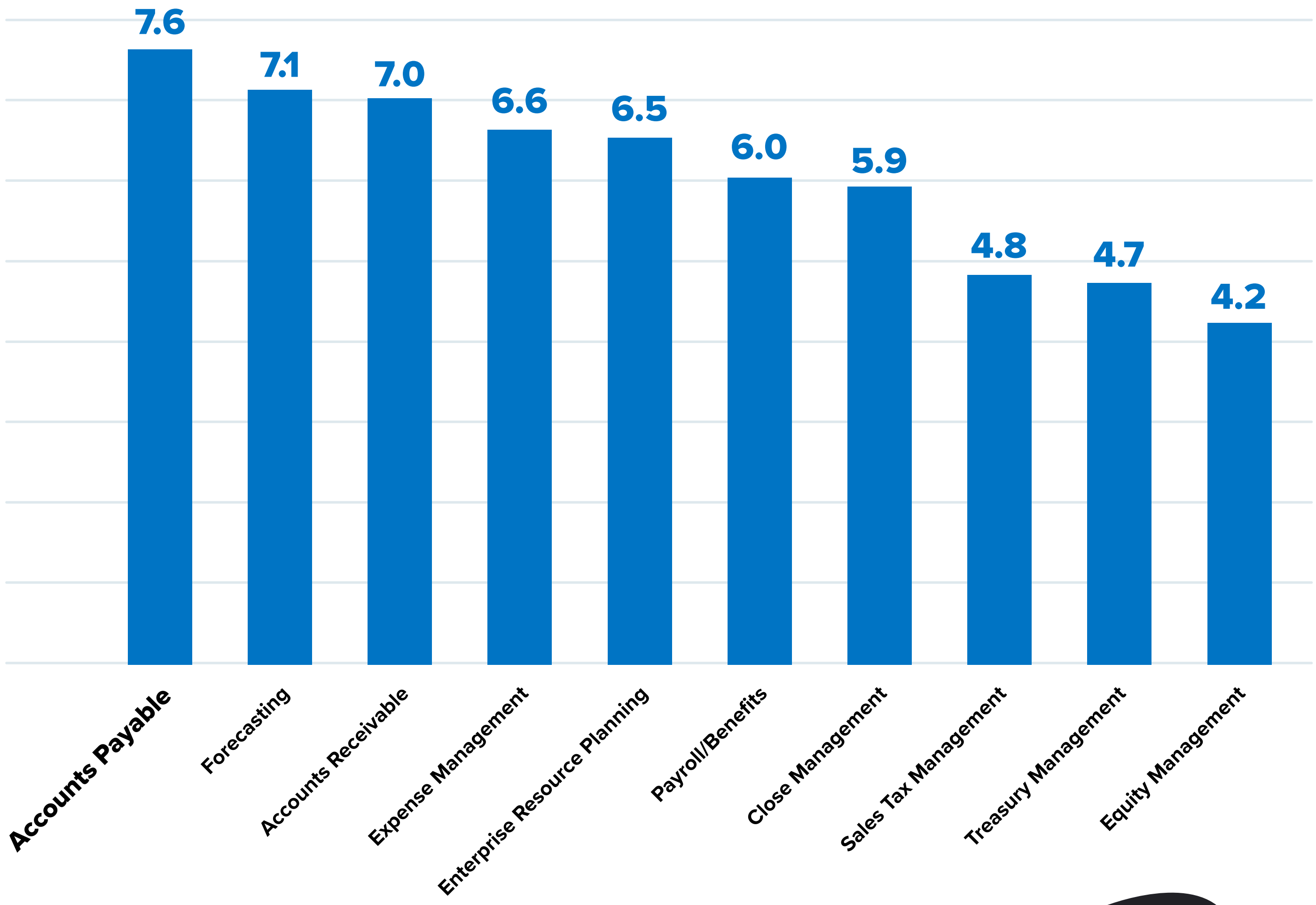
58% of respondents agree or strongly agree that the pandemic was a catalyst to digitize the finance function. 70% of those who worked fully remotely during the pandemic agreed/strongly agreed, likely because they disproportionately felt the pain of existing paper-based processes, such as manual invoice processing and check payments.

Agree or Strongly Agree that COVID was a Catalyst for Back-Office Digitization



Top Finance Digitization/Automation Priorities

(average score, 10 being the highest)



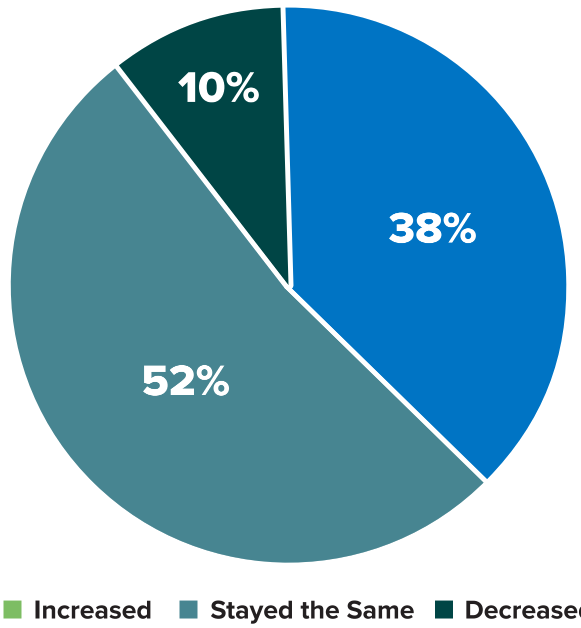
Digitization priorities focus on cash flow management, with AP topping the list

Accounts Payable (7.57), Forecasting (7.11), and Accounts Receivable (6.97) topped the list of digitization priorities. While enabling a remote workforce was clearly one driver, these three initiatives are also aimed at improving cash flow management, which was especially crucial last year, considering all the volatility and uncertainty of the pandemic.

Supplier Trends Underscore AP's Importance

At the same time that internal challenges were driving the need for automation, external factors with suppliers were putting pressure on manual AP and payment processes.

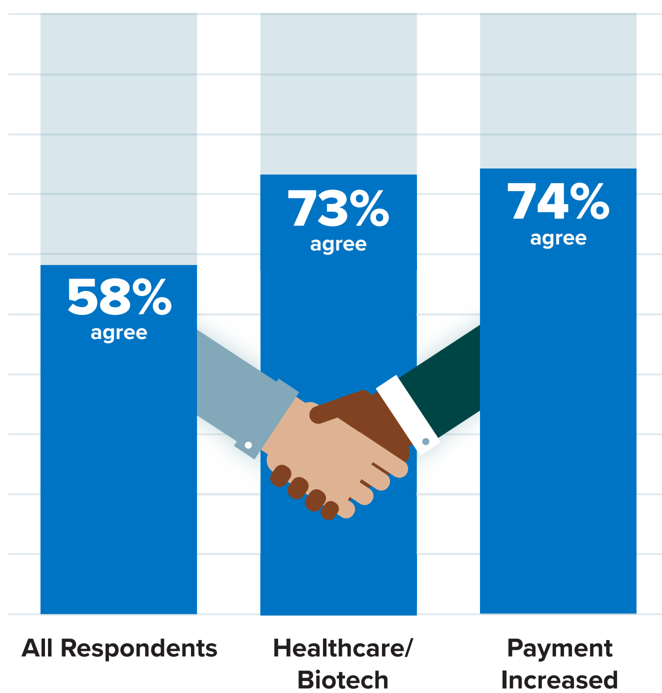
Supplier Payment Volumes Over the Last Year



Supplier payments held steady or increased

Despite the various pandemic-induced challenges and disruptions, one constant was supplier payments. Only 10% of respondents made fewer supplier payments over the last year, while nearly 40% actually made more payments. Manufacturing and healthcare accounted for most of the businesses reporting increases, which is not surprising given their role in the pandemic. In general, this trend helps explain why AP emerged as the #1 priority. Goods and services from suppliers were essential to continued business operations, and at the same time, finance leaders needed better visibility and tighter control over cash outflows.

Agree That Supplier Relationships Have Become More Strategically Important



Supplier relationships grew more important

58% of finance leaders said their supplier relationships grew more strategically important over the last year. The number is even higher for healthcare organizations (73%) where the steady flow of supplies is critical to delivering care. Interestingly, organizations that made more payments also viewed supplier relationships more strategically (74%), a sign that suppliers are essential to their continued growth. This heightened awareness of the importance of suppliers is likely to continue as organizations focus on moving their businesses forward and preventing future supply chain vulnerability.

Digital Payments Are on the Rise, but Haven't Yet Reached the Tipping Point

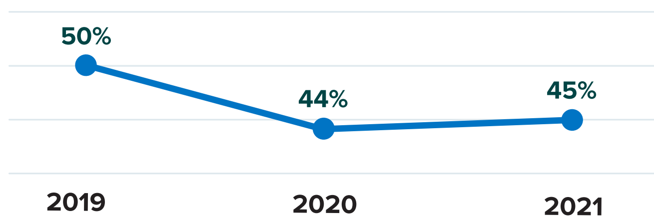
While many organizations desire to shift more of their AP spend from costly paper checks to digital payments, they are still in the early stages. The need to improve efficiencies, visibility, and cash flow management is putting pressure on these organizations to make greater headway.

Digital payments are growing but checks still reign supreme

Businesses made more electronic payments over the last year, with ACH leading the way with 50% of respondents reporting an increase in ACH payments over the last year. At the same time, 44% of respondents reported a decrease in check payments, likely due to the challenges of cutting paper checks amid the pandemic as well as growing supplier preference for electronic payments, given their own cash flow challenges.

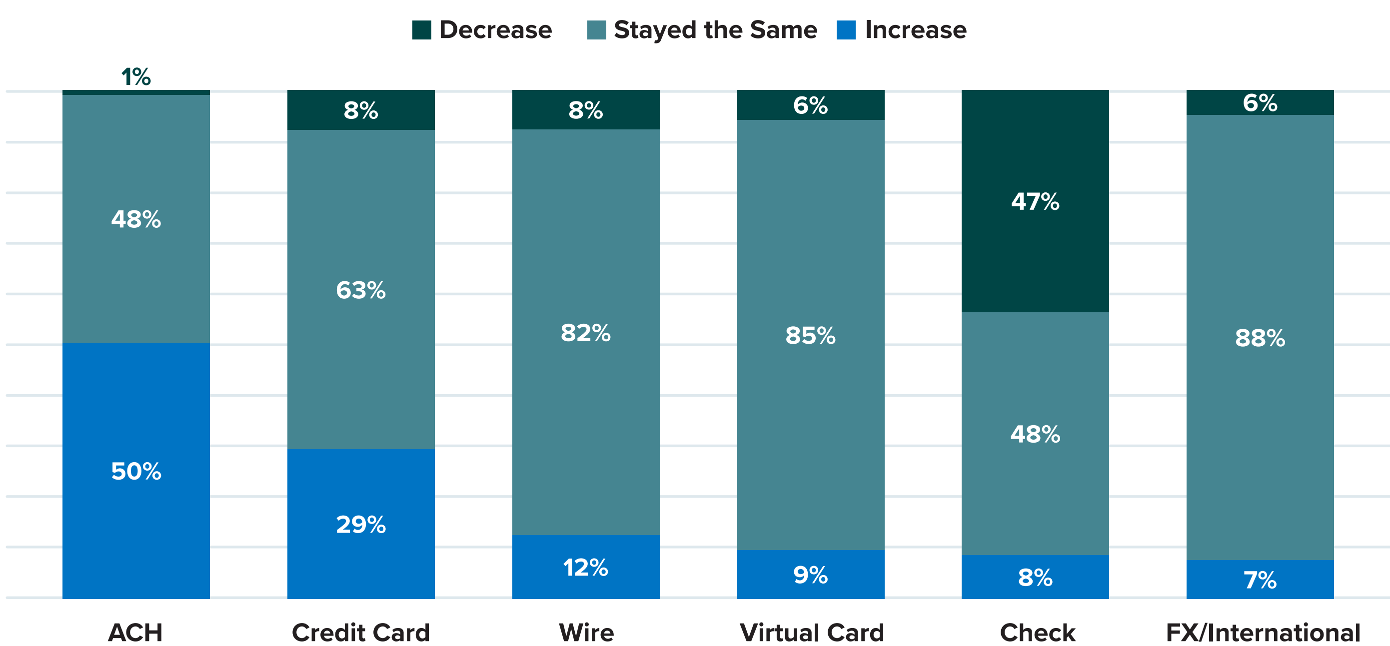
Despite this decline, checks still reign supreme in B2B payments, with 45% making more than half of their payments via check (essentially unchanged from 44% in our 2020 report). Because checks remain such a deep-rooted and ingrained practice—despite all their drawbacks—organizations need to make a concerted effort to move to electronic payments.

Businesses Who Make >50% of Their Supplier Payments Via Check

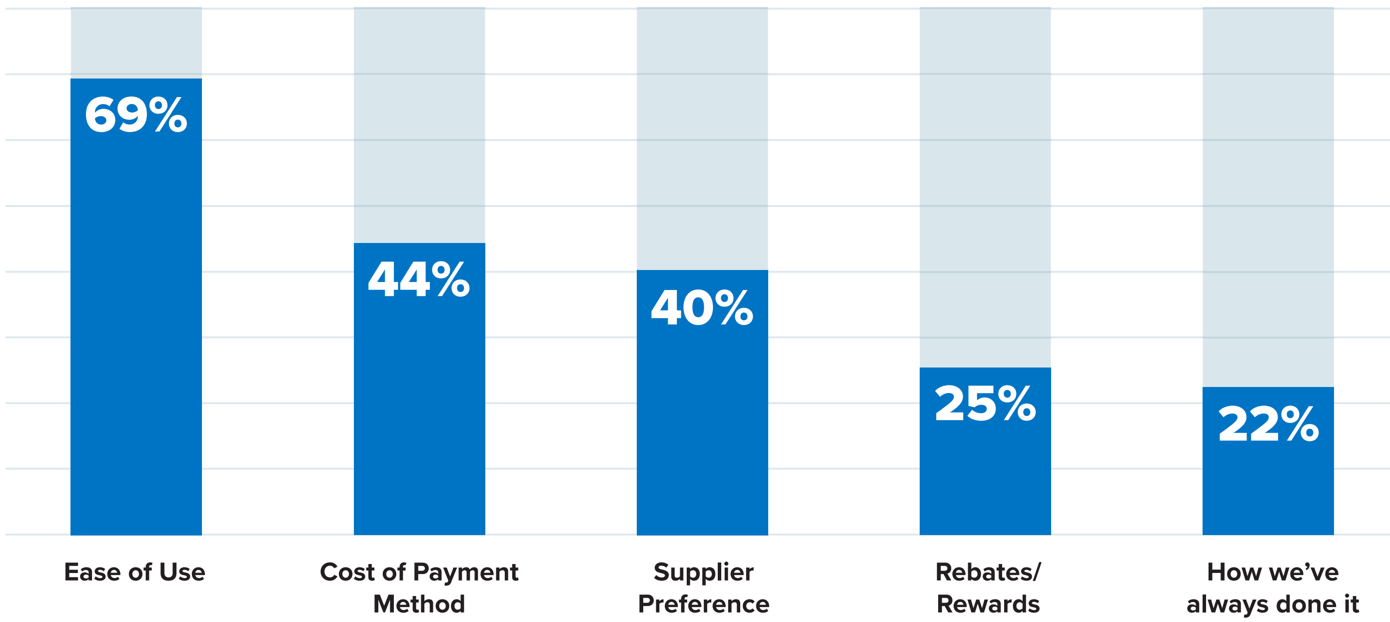


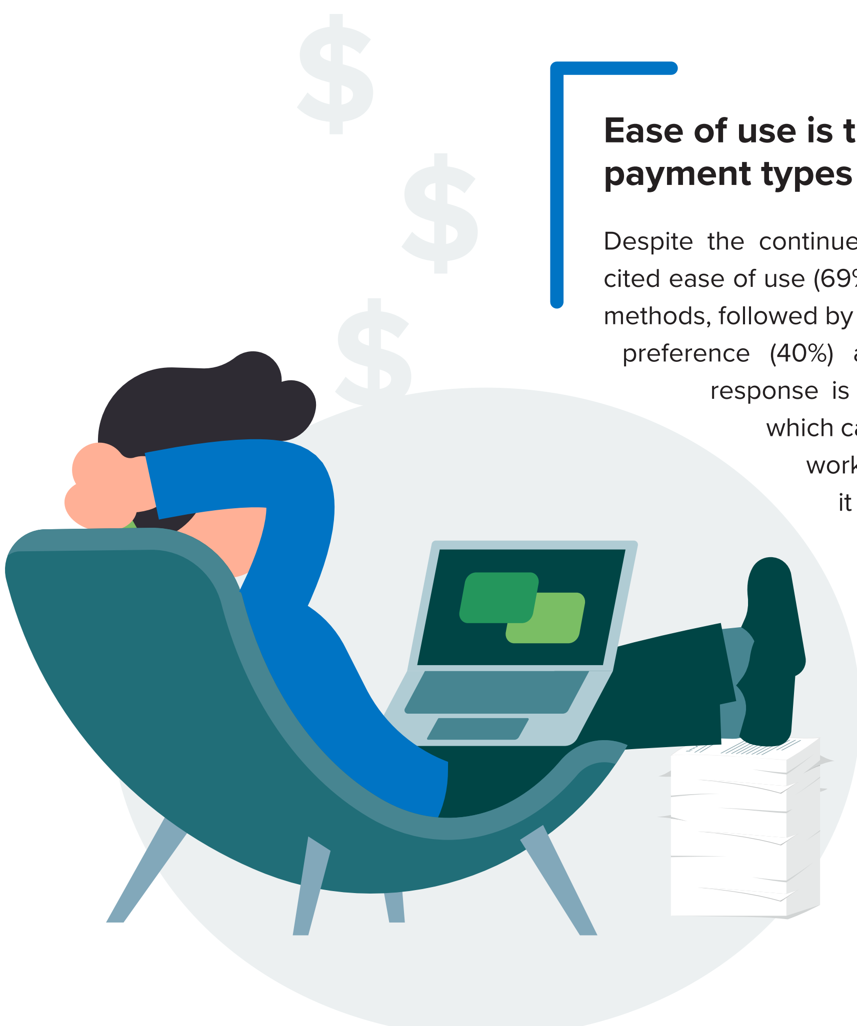
Trends by Payment Type

(last 12 months)



Top Drivers for Current Payment Types





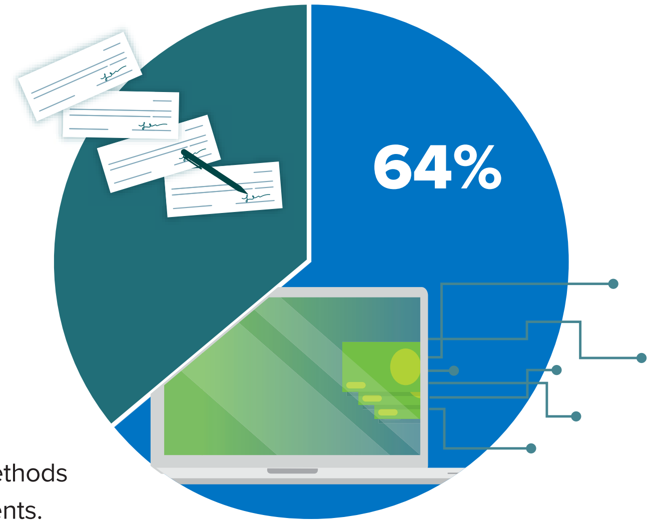
Ease of use is the #1 driver of current payment types

Despite the continued prevalence of checks, respondents cited ease of use (69%) as the top driver for current payment methods, followed by cost of payment method (44%), supplier preference (40%) and rewards/rebates (25%). The top response is ironic given the popularity of checks, which carry a high cost and create considerable work for AP staff. How we've always done it brought up the rear at 22%, though 38% of those making more than half of their payments via check cited that reason. Because checks are actually one of the most laborious payment methods – requiring staff to prepare, stuff, seal, and mail checks, and chase down signatures – it points to the need for greater market education on the benefits and ease-of-use of digital payments.

Businesses want to make more digital payments this year

64% of organizations intend to make more electronic payments in the next year. It's no wonder given the time, effort, and delays that manual check processing caused during the pandemic. In the new hybrid workplace, these problems will remain.

Finance Team Intending to Make More Electronic Payments This Year

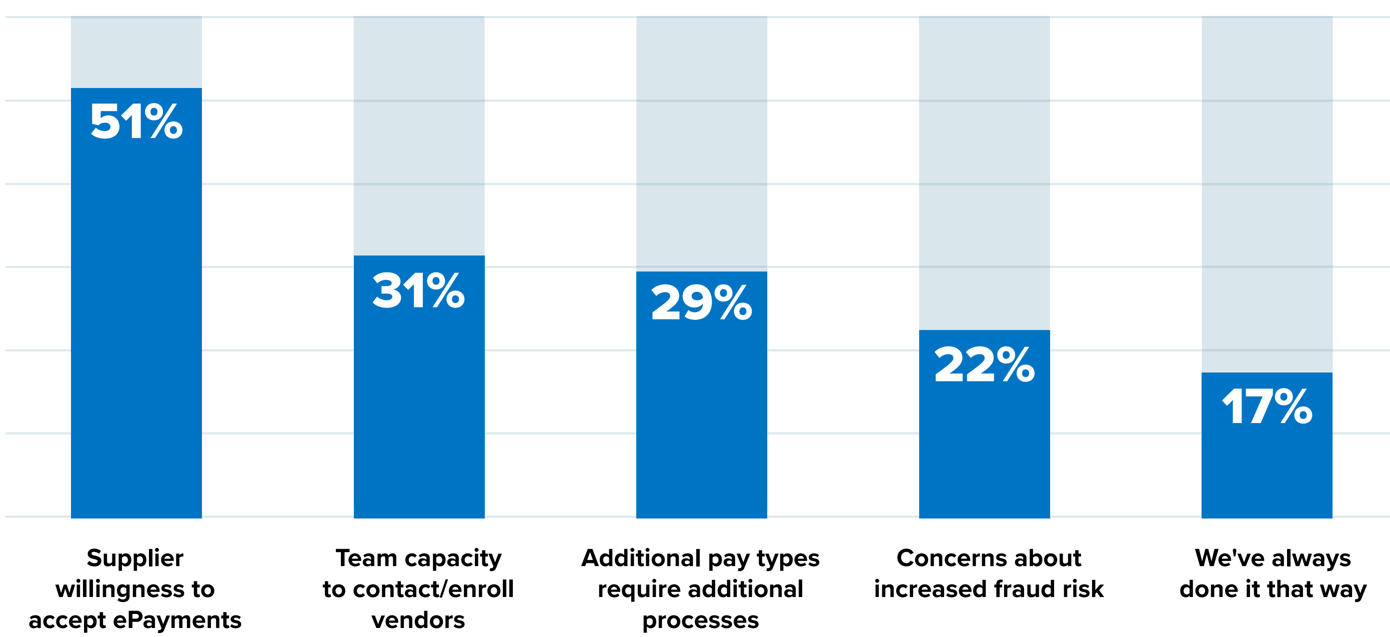


Supplier willingness and team capacity are perceived barriers to digital payment growth

The top barrier to converting more spend to digital payment methods is supplier willingness to accept them, cited by 51% of respondents. Since our survey panel was finance professionals—not suppliers themselves—this obstacle may be more perceived than real, as many suppliers preferred digital payments during the pandemic to eliminate challenges with collecting and processing checks and get paid faster. Other barriers, in order of importance, include team capacity to contact/enroll vendors (31%), and the perception that additional payment methods will require separate, incremental processes (29%).

For high check spenders, the concern about a "separate, incremental process" rose to 40%, suggesting that they believe that the effort required to make digital payments would be the same as check payments, when in reality, it's not the case. An AP automation platform provides one workflow for all payments, enabling quick and easy processing, while supplier enablement services handle the work of onboarding suppliers to accept digital payments

Top Barriers to Digital Payment Adoption

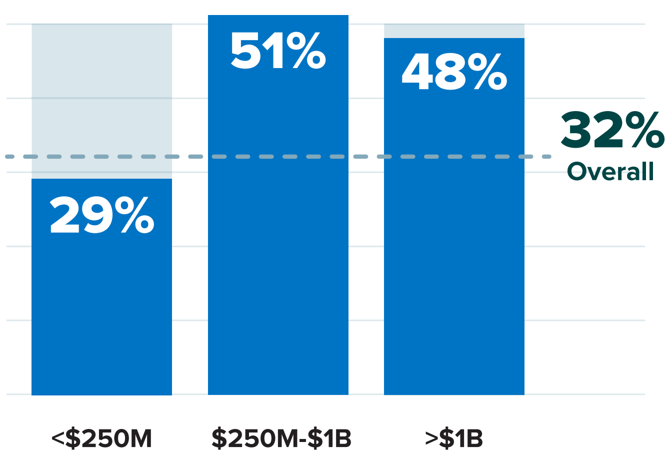


End-to-end AP automation is lagging, but can deliver significant value

The survey findings indicate that the adoption of end-to-end AP automation is in the beginning stages, particularly for SMBs and mid-market companies. This is primarily due to their complacency with current manual processes, budgetary concerns, and the perceived lack of a clear business case.

However, forward-thinking companies which have implemented AP automation holistically are reaping the benefits. They reported that they are able to easily absorb a growing volume of invoices and have increased their digital payments at a faster rate than their peers.

AP Automation Adoption by Company Revenue Range



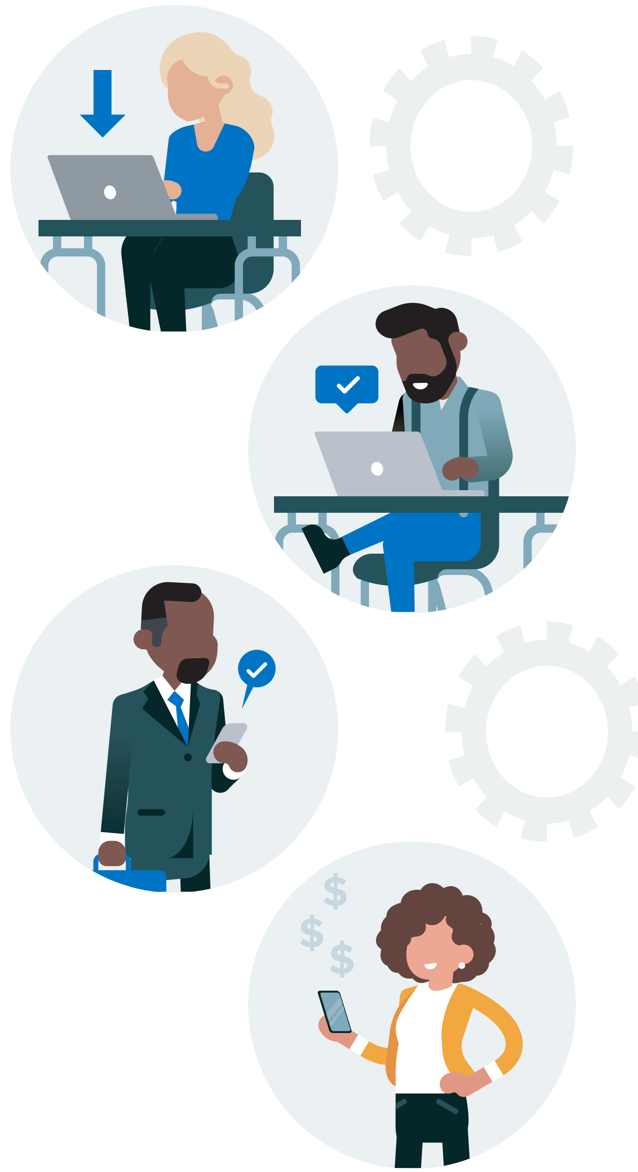
AP automation adoption is still nascent, though mid-market is lagging

Overall, 32% of respondents have implemented an AP automation solution, down from 38% in 2020 (which could be a result of the survey samples). Splitting responses by revenue band, companies with $250 million - $1 billion in revenue are leading the way with 51% adoption followed by $1 billion+ companies at 48%. However, only 29% of organizations with under $250 million in revenue have begun their automation journey, which suggests that while there is room for organizations of all sizes to realize the benefits of AP automation, there is a particularly large opportunity for small and mid-sized companies.

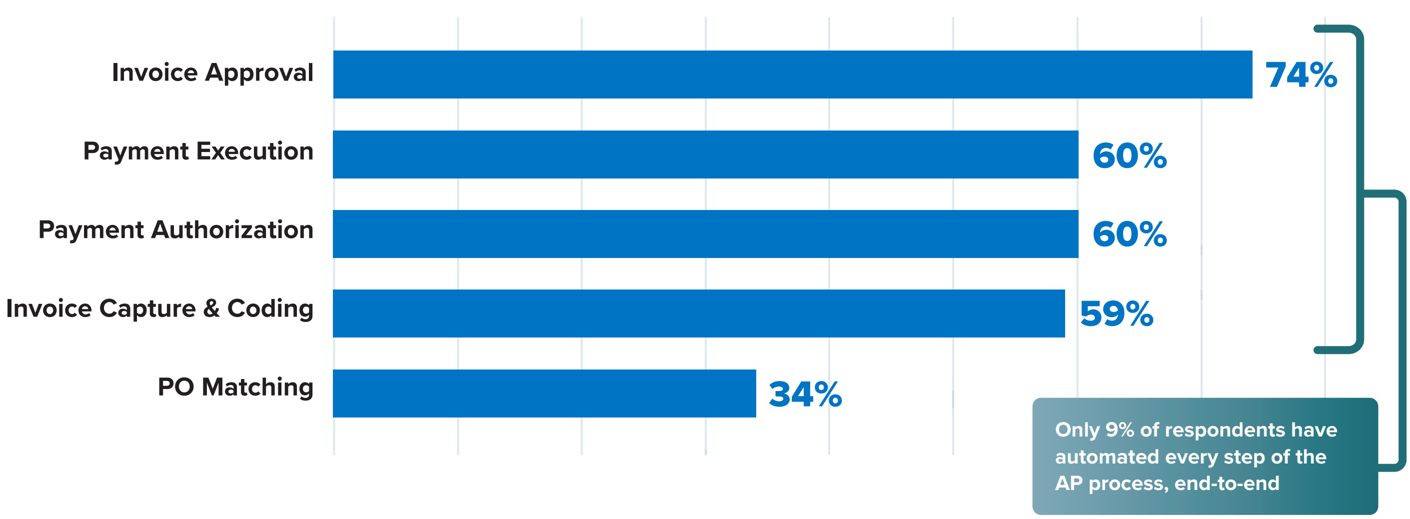
Only 9% have automated the end-to-end AP process

When asked which AP tasks have been automated, invoice approvals was the top answer reported by 74% of respondents, followed by payment authorization and payment execution at 60%, and invoice capture & coding at 59%. Purchase Order (PO)-invoice matching was the least automated task at 34%, which is not surprising since not every business uses POs in their procurement process.

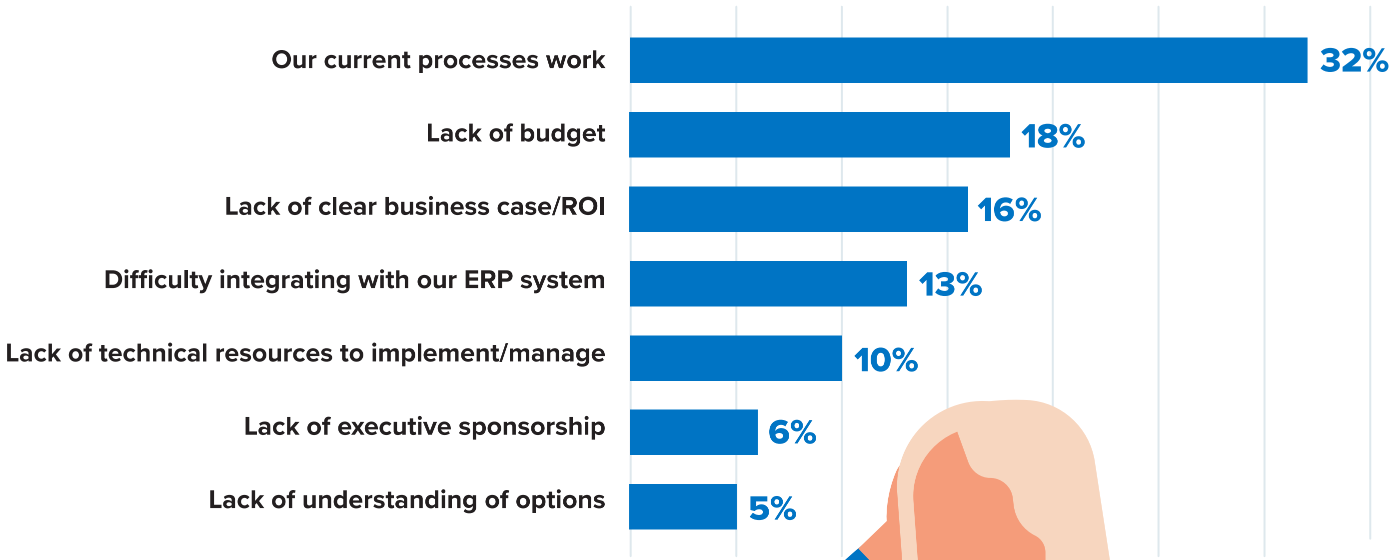
Looking at the four key steps of the end-to-end AP process (invoice capture, invoice approval, payment authorization, and payment execution), only 9% of respondents fully automated and optimized their AP process, from invoice to payment. That indicates that most organizations are missing out on a major competitive advantage, since the benefits of invoice and payment automation are compounded when combined. For example, a holistic AP automation solution provides companies with end-to-end visibility that can lead to better spend and cash management, as well as greater efficiencies, accuracy, and protection against fraud, among other advantages.



AP Tasks That Have Been Automated



Barriers to AP Automation Adoption



Status quo and budget/ROI are barriers to automating AP

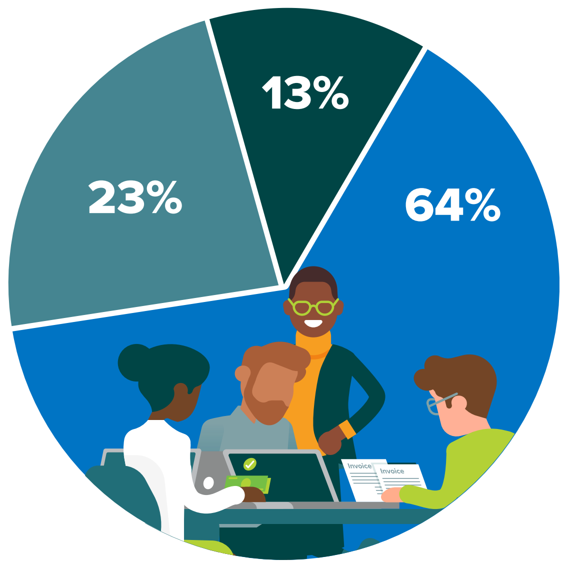
For those respondents who haven't yet automated their AP process, the top barrier to doing so is the belief that current processes are working, cited by 32%, followed by lack of budget (18%), and lack of clear business case/ROI (16%). When combining the budget and business case, financial concerns are the #1 overall barrier to adoption, although these can be easily overcome by calculating the true cost of a manual AP process (human capital, hard and soft costs) as well as a holistic business case that includes efficiency gains, cost reduction, and rebates from virtual card payments. End-to-end automation – including payment automation — is essential to maximizing these benefits.

Automation helps teams absorb volume increases

64% of respondents who have implemented AP automation are processing more invoices and payments with the same size team and another 13% have reallocated staff time that they have freed up to other projects. Just 23% have reduced the size of their AP team to process the same volume of invoices with fewer resources. The cost avoidance of not hiring additional staff to support growth demonstrates the value of automation and can be used as a further proof point when building a business case.

- Process more volume with the same team
- Process the same volume with fewer resources
- Reallocate staff time to other projects

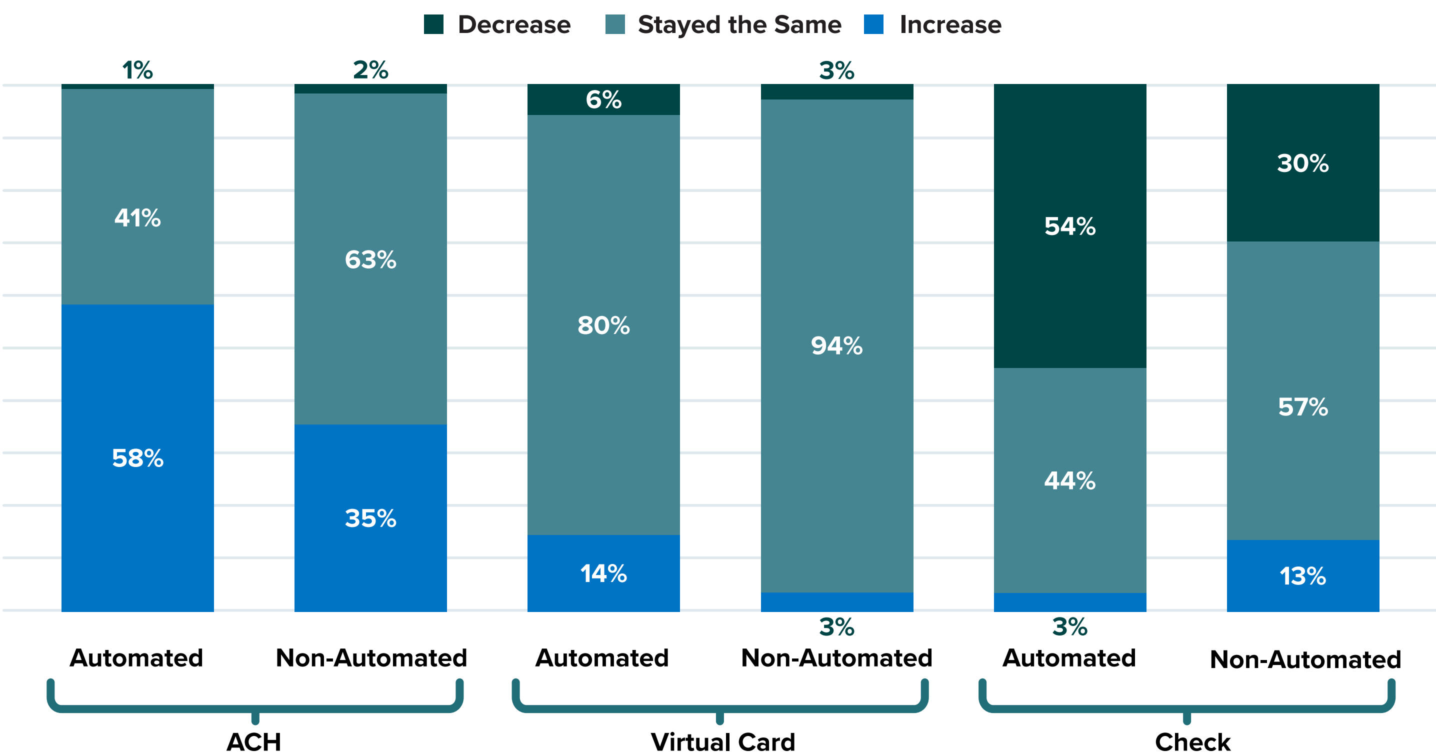
Team Impact from AP Automation



Automation accelerates digital payments

Organizations that have implemented AP automation report above-average increases in ACH and virtual card payments, along with a greater decrease in checks. This suggests that there is a growing divide between forward-thinking finance teams who are embracing automation and digital payments, and those who are still relying on manual processes and paper checks.

AP Automation Accelerates Digital Payment Growth



The rapid growth of virtual cards

Since not all AP Automation platforms support virtual cards, we looked beyond the survey, turning to MineralTree platform data to see how virtual card usage has grown relative to check and ACH. Compared to the same period two years ago, the percentage of virtual card transactions skyrocketed 156%, and the percentage of spend rose a staggering 270%.

The Virtual Card Advantage

Virtual cards effectively address the main drivers of payment methods:

Ease of use. With the right AP automation platform, virtual card payments can be made using the same workflow as check, ACH, and even foreign exchange (FX) payments. There is no extra time or effort required to use virtual cards.

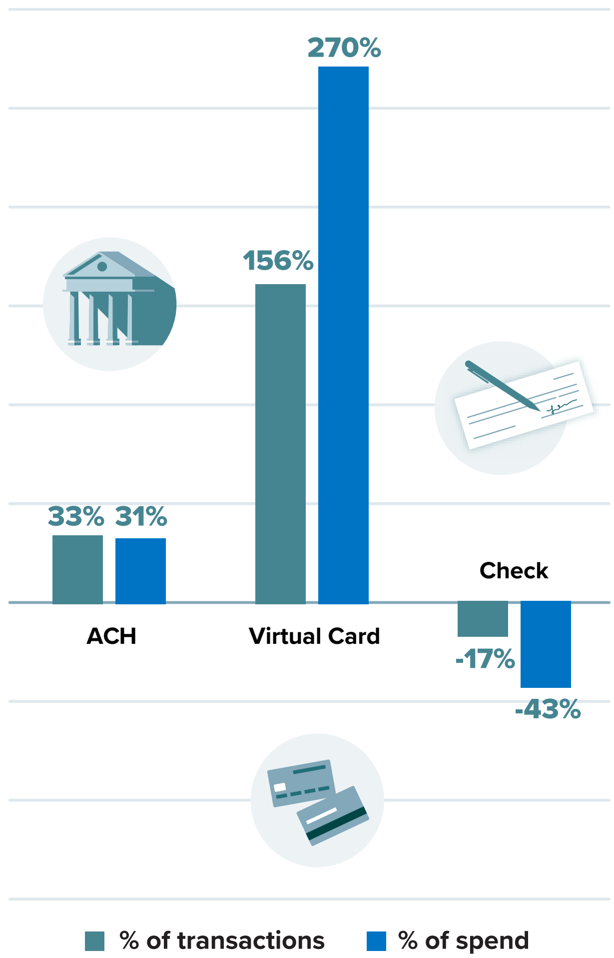
Cost of payment method, and Rewards/rebates. Not only is there no cost to use virtual cards, but you earn cash-back rebates for each payment. By converting enough AP spend to virtual card, many businesses are able to transform AP into a profit center.

Supplier preference. Suppliers can gain advantages too. They have assurance of funds once the virtual card is swiped and they are able to get paid faster, supporting their critical need for cash flow.

And there is an important added benefit:

Fraud protection. Since virtual cards use randomly generated account numbers, authorized for a specified dollar amount and a single use only, they provide the strongest protection against fraud of any payment method.

Clients are Seeing Faster Digital Payment Growth, Especially Virtual Card



Where do you go from here?

2020 was a tumultuous year for business, hitting the finance department hard. Work-from-home mandates, and in many cases, an increased volume of payments, pushed many finance departments to the brink, motivating them to digitize AP processes. With no end in sight for hybrid work, the impetus to automate AP has become the number one priority for finance.

AP automation is part of a larger digital journey, which can be different for different organizations at different points of the process. How can you begin or further your digital journey? Here are three key steps:

Determine where you are and where you need to go

Assess the current state of your process and set goals of what you want to achieve. Engage key stakeholders early and throughout the process.

Build a holistic business case

Based on your specific situation, industry benchmarks, and best practices, build the business case for automation and present it to management. Make sure that the business case is holistic, encompassing efficiency gains, cost reduction, and the new revenue stream that can be generated from virtual card rebates.

Start somewhere and keep going

You will benefit from increased automation, no matter where you are on the journey. For example, if you are already paying some suppliers digitally, aim to sign on more, or increase the number of virtual card payments in your mix. Those who are automating either invoice processing or payments will gain efficiencies, while reducing costs and late payments. Forward-thinking organizations with end-to-end AP automation are multiplying these benefits, as well as gaining the visibility for improved spend and cash flow management, faster digital payment adoption, and greater ease-of-use. Even if you've established a holistic end-to-end practice, don't stop there. There is always opportunity to gain greater value and ROI through continuous improvement.

With hybrid work here to stay, growing payment volume, and ever-increasing pressures to support the business with faster payments and greater visibility, there's no time like now to automate.

Learn more!

Contact your financial advisor about AP Automation or visit *PNFP.com/APautomation*.

Methodology & Demographics

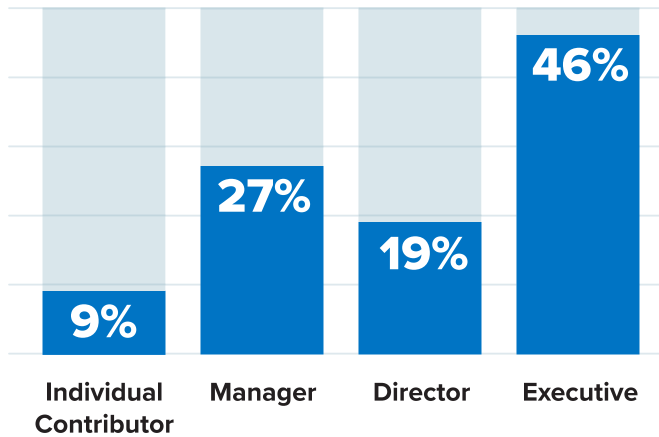
For the sixth consecutive year, MineralTree surveyed a wide range of finance professionals involved in AP to analyze their current state of operations, challenges, and outlook for the future.

The 2021 State of AP Survey focuses on the long-term impact of the pandemic on finance, the progress organizations have made with digital payments and end-to-end AP automation, and their digitization priorities. This report, which is a snapshot of where the industry is at a specific point of time, can serve as a benchmark, providing the opportunity to compare your practices and digitization plans to the survey group.

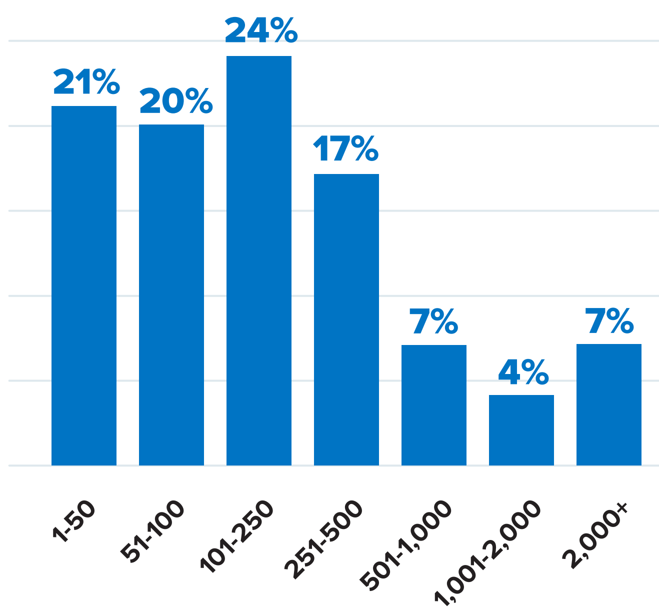
In preparing the report, we surveyed 669 finance professionals involved in the AP function, from April through June 2021. The respondents represented a mix of industries, company size, and job level. The annual revenue of these organizations ranged from under $1 million to more than $1 billion, with fewer at either end of the spectrum and the majority at the $10 -$100 million level. The number of supplier payments for these companies ranged from 1 to more than 2,000 per month, with the majority in the 101-250 range.

The job level of respondents varied, with the greatest number holding executive positions, followed by manager, director, and individual contributor.

Demographics: Respondent Job Level



Demographics: Monthly Payment Volume



Demographics: Company Revenue Range