

KPIs Every AP Department Should Track

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Objectives

- Define and explain key Accounts Payable KPIs
- Demonstrate how to measure and benchmark KPIs
- Link KPIs to operational strategic goals
- Identify opportunities for process improvement
- Promote KPI-driven decision making and dashboard use

Key Performance Indicators (KPIs)



- ❖ Key Performance Indicators are targets used to track progress.
- ❖ Tracking them shows you what's working and what's not.

5 Reasons Why KPIs Matter



The monitor
company health



They reveal patterns
and trends



They measure progress
towards goals



They indicate whether
a goal needs to be
adjusted



They uncover
trouble spots

Linking KPIs to Organizational Goals



Financial Perspective



Customer Perspective



Internal Process Perspective



Learning and Growth Perspective

KPIs vs Metrics: What Is The Difference?

KPIs

vs

Metrics

Measure progress towards key business goals

Measure performance of specific business activities or processes

They have a high-level perspective

They have a lower-level perspective

They are relevant across different departments

They are relevant for specific departments or business areas

Used for strategic decision-making

Tend to be operational or tactical

How To Set Effective KPIs

S

Specific

Provide a clear and detailed description of what you want to achieve.

M

Measurable

Include a quantifiable metric with a target that evaluates success.

A

Achievable

Set a challenging target but keep it within your scope.

R

Relevant

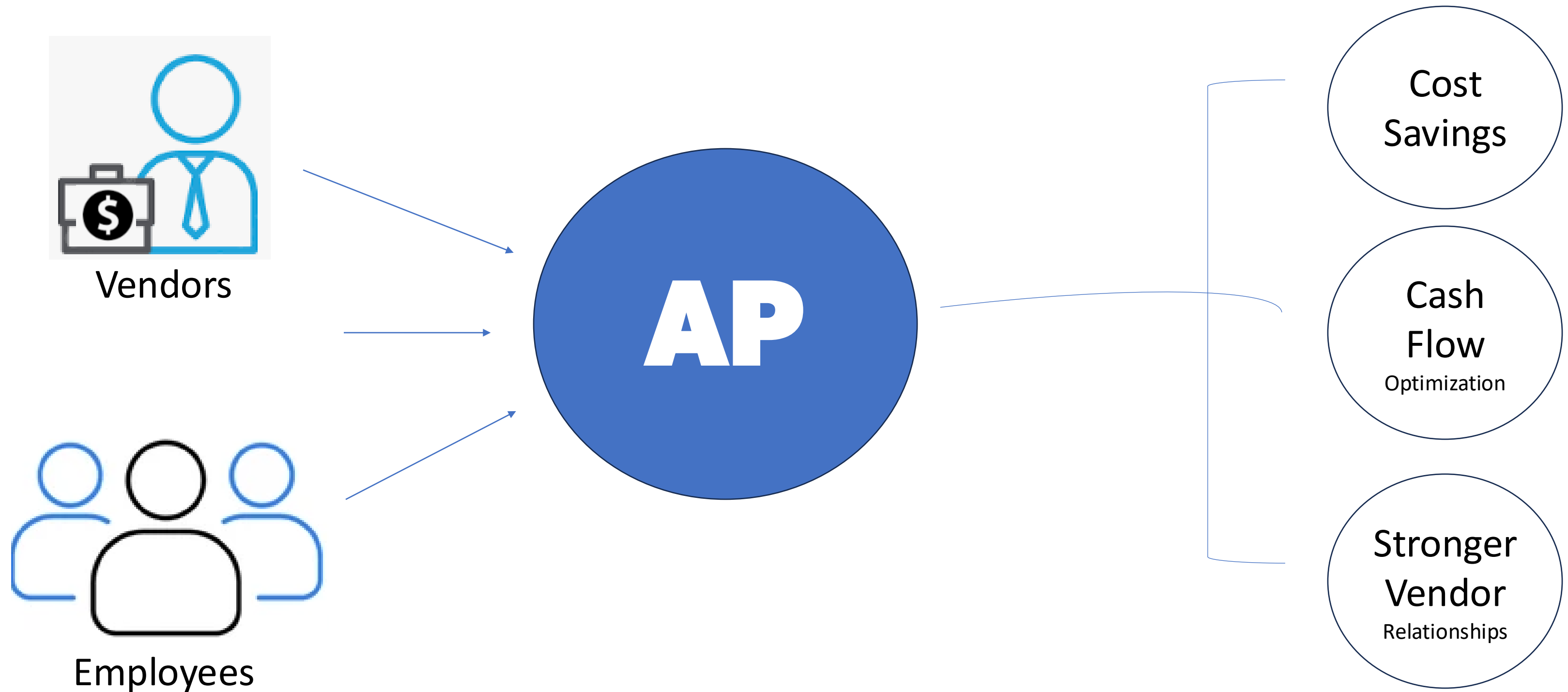
Clarify that your goal is relevant to your industry, company, and team.

T

Time-bound

Set a deadline for when your goal will be achieved.

How AP Contributes to Organizational Success



Efficiency & Productivity KPIs

These KPIs help measure how fast and effectively the AP process runs:

- Invoice Cycle Time
- Straight-Through Processing (STP) Rate
- Invoice Backlog
- Invoices Processed per FTE

Invoice Cycle Time = Total Time to Complete Invoices / Number of Invoices



- Invoice Received
- Invoice Recorded and Matched
- Invoice Approved
- Invoice Paid

How to Reduce Invoice Cycle Time



- ✓ Streamline approval process
- ✓ Automate invoice processing
- ✓ Improve data accuracy
- ✓ Enhance vendor communication

Straight-Through Processing (STP) Rate

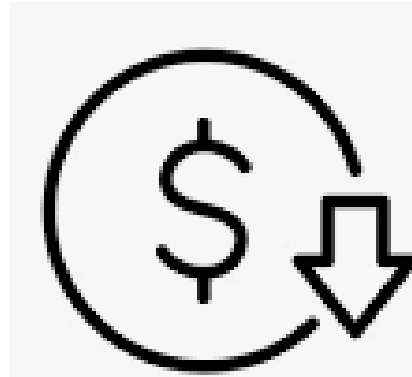
$$\text{Straight-through processing rate} = \frac{\text{Number of invoices without manual intervention}}{\text{Total number of invoices}} \times 100$$



How STP Drives Efficiency



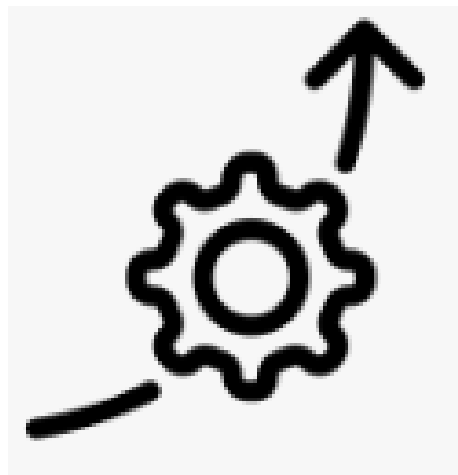
Faster Processing



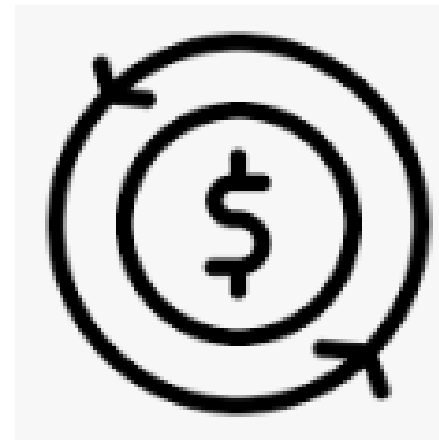
Lower Costs



Fewer Errors



Higher Productivity



Better Cash Flow



Improved Compliance

Invoice Backlog

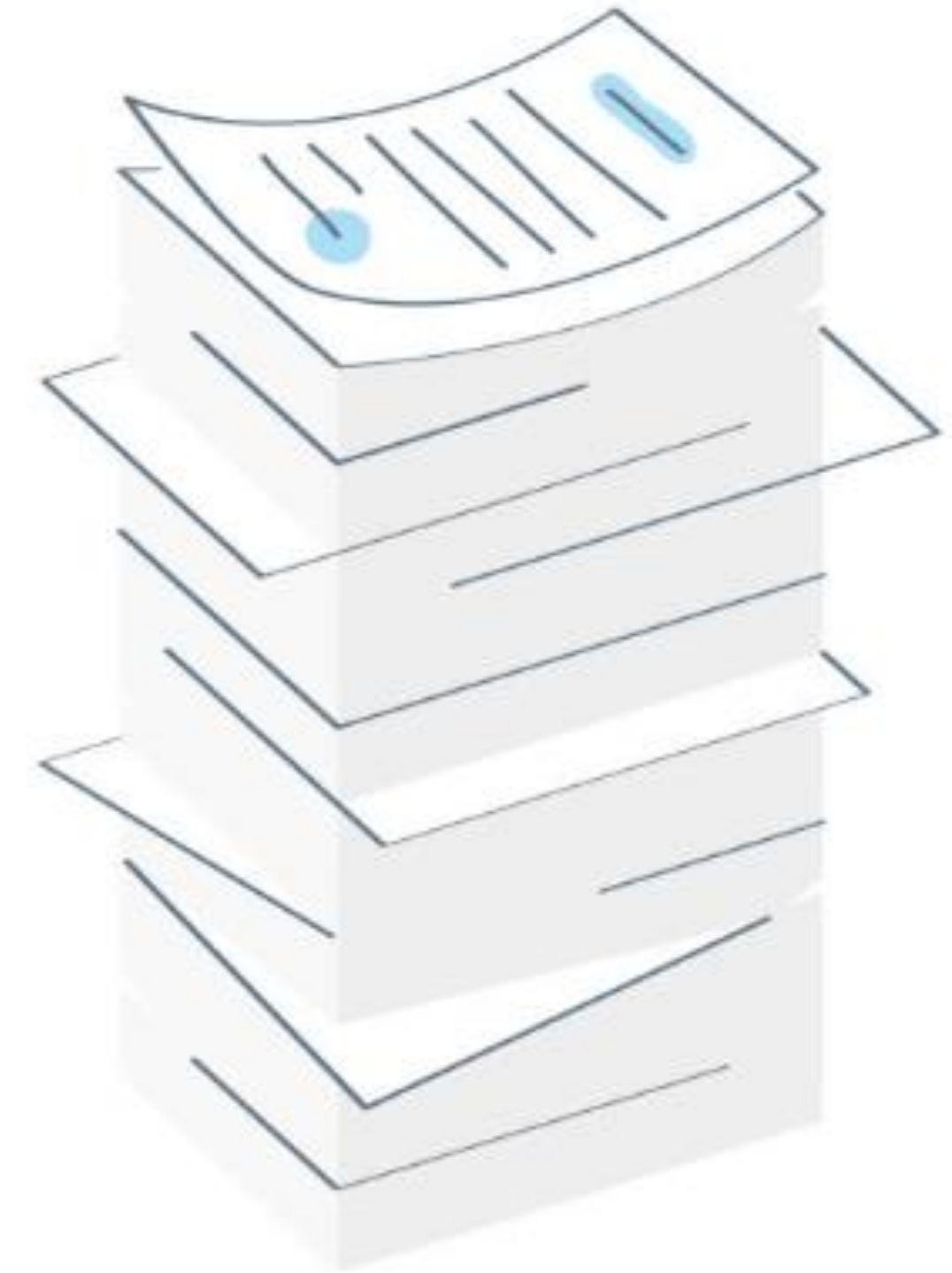
Number of invoices awaiting processing

Measure by:

- Invoice count
- Dollar value
- Aged

Why it matters:

A growing backlog signals resource or process bottlenecks



Invoices Processed per FTE

Total invoices ÷ number of AP staff

$$\frac{12,000 \text{ invoices}}{2 \text{ employees}} = 6,000 \text{ invoices per FTE}$$



Why the Number of Invoices Processed per FTE is Important

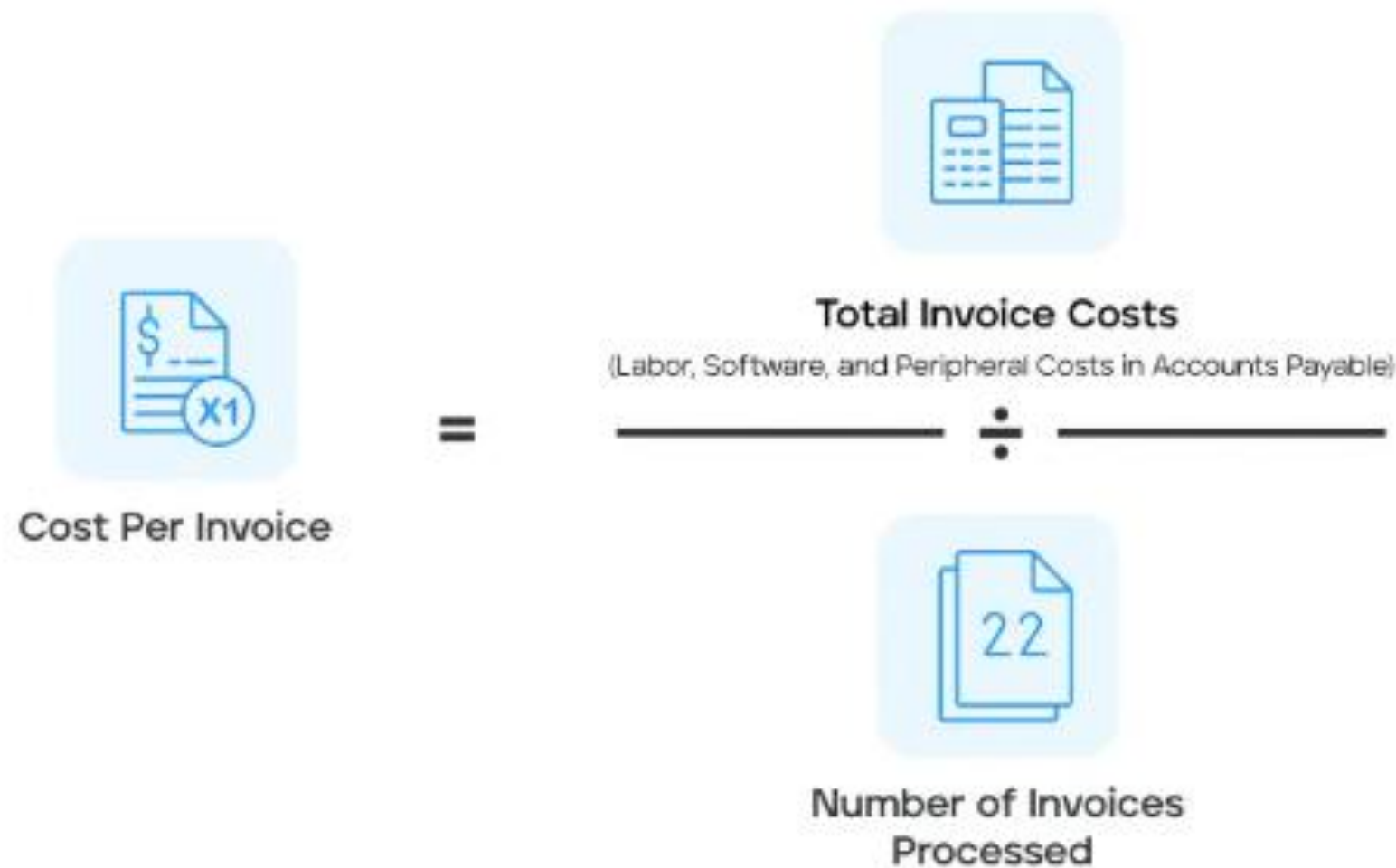
- Indicates team productivity and efficiency
- Measuring AP team capacity
- Estimating the impact of efficiency gains on productivity
- Calculating cost savings and headcount requirements

Cost & Financial KPIs

These KPIs focus on operational cost and cash optimization:

- Cost per Invoice
- Early Payment Discount Capture Rate
- On-Time Payment Rate
- Days Payable Outstanding (DPO)

Cost per Invoice Processed



Example:

$$\frac{\$91,200 \text{ total invoice cost}}{13,000 \text{ invoices}} = \$7.02 \text{ per invoice}$$

Why the Average Cost per Invoice is Important

- Calculate the benefits of efficiency gains
- Identify cost drivers
- Support strategic decision-making
- Improve financial control

Early Payment Discounts Captured

By Dollar Amount:

Formula: $\left(\frac{\text{Total Discounts Captured}}{\text{Total Discounts Available}} \right) \times 100 = \text{Percentage}$

Example: If you captured \$15,000 in discounts when \$20,000 was available, the calculation is:

$$\left(\frac{15,000}{20,000} \right) \times 100 = 75\%$$



Early Payment Discounts Captured

By Invoice Count:

Formula: $\left(\frac{\text{Number of Invoices with Discount Captured}}{\text{Total Number of Invoices Eligible for Discount}} \right) \times 100 = \text{Percentage}$

Example: If you captured the discount on 80 out of 100 eligible invoices, the calculation is:

$$\left(\frac{80}{100} \right) \times 100 = 80\%$$

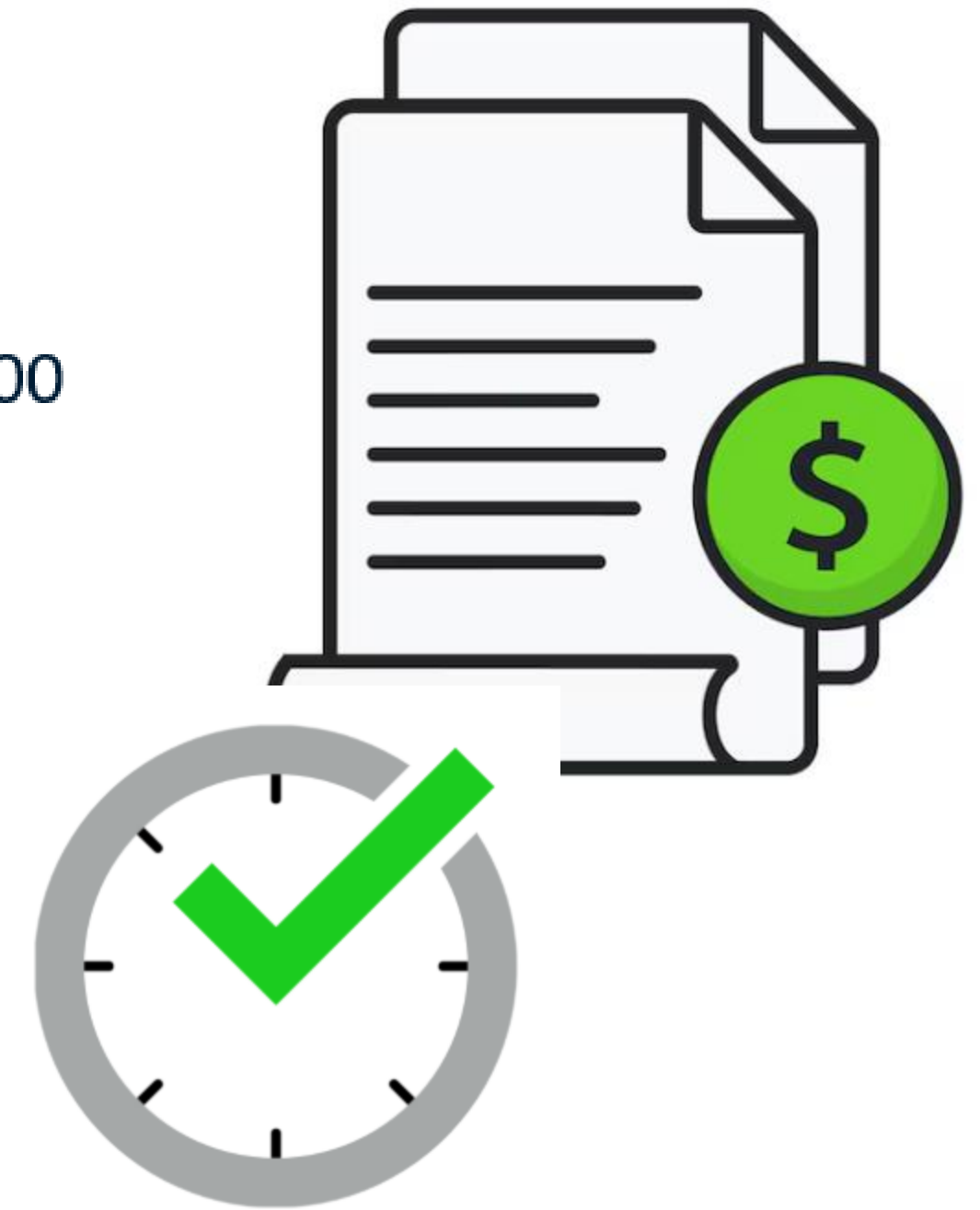


Why Early Payment Discount Capture Rate is Important

- Cost savings
- Efficient cash flow management
- Process efficiency
- Stronger vendor relationships
- Identifies issues

On-Time Payment Rate

$$\text{On-Time Payment Rate} = \left(\frac{\text{Number of Payments Made On Time}}{\text{Total Number of Payments Due}} \right) \times 100$$



Why On-Time Payment Rate is Important

- Supplier relationships
- Cost savings
- Operational efficiency
- Cash flow management
- Business reputation
- Financial health evaluation

How to Improve On-Time Payment Rate

- Automation
- Process Improvement
- Collaboration

Days Payable Outstanding (DPO)

Days Payable Outstanding = $\frac{\text{Accounts Payable}}{\text{Cost of Goods Sold}} \times \text{Number of Days}$

Example:

$$\left(\frac{\$110,000}{\$1,500,000} \right) \times 365 = 36.5 \text{ days}$$

How DPO Impacts Business

- Cash flow management
- Supplier relationships
- Creditworthiness
- Operational efficiency

How to Use DPO Strategically

- Increase DPO to free up cash flow
- Decrease DPO for stronger supplier relations
- Optimize AP processes

Accuracy & Quality KPIs

These KPIs show how clean and error-free your AP process is:

- Exception Rate
- Invoice Error Rate
- First Time Match Rate (3-Way Match)

Exception Rate



% of Exceptions =

Number of
exceptions
per month



Total of invoices
processed
per month



100

What Causes Exceptions?



- X** PO mismatch (pricing, quantity, items, receipt)
- X** Missing data
- X** Duplicate invoices

Invoice Error Rate

Formula: Error Rate (%) = $\frac{\text{Total invoices with errors}}{\text{Total invoices processed}} \times 100$

Example: 0.5% = $\frac{50 \text{ error-containing invoices}}{10,000 \text{ total processed invoices}} \times 100$



- Why it matters: Affects accuracy and payment delays

What Invoice Error Rate Indicates

- Inaccuracies
- Inefficiencies
- Cost and delays

How to Improve Invoice Error Rate

- Implement automation
- Standardize processes
- Use checklists
- Adopt digital formats
- Regularly monitor

First Time Match Rate (3-Way Match)



$$\text{First time match rate} = \frac{\text{Number of invoices matched automatically}}{\text{Total number of invoices processed}} \times 100$$

Why First Time Match Rate is Important

- High exception rates increase costs and slow processing
- POs are being created correctly
- Vendors are reliable
- Your receiving process is efficient
- Invoice processes are streamlined and accurate:
 - Purchase order and invoice errors
 - Receiving issues
 - System limitations

Fraud & Risk Indicators

These KPIs help detect anomalies, reduce fraud risk, and ensure compliance:

- Duplicate Invoice Rate
- Manual Payment Frequency
- Vendor Master File Change Rate
- Compliance Rate

Duplicate Invoice Rate

Percent of invoices flagged as duplicates

- Tracks the percentage of payments made for the same invoice more than once
- Identifies and prevents costly errors, improve financial accuracy, and protect company funds
- A high rate of duplicate payments can result from simple mistakes or fraud and can lead to significant financial losses



Duplicate Invoice Rate Formula = $\frac{\text{The number of duplicate payments made}}{\text{The total number of invoices paid}} \times 100$

$(80/10,000) \times 100 = 0.8\%$ This means your duplicate payment rate is 0.8%

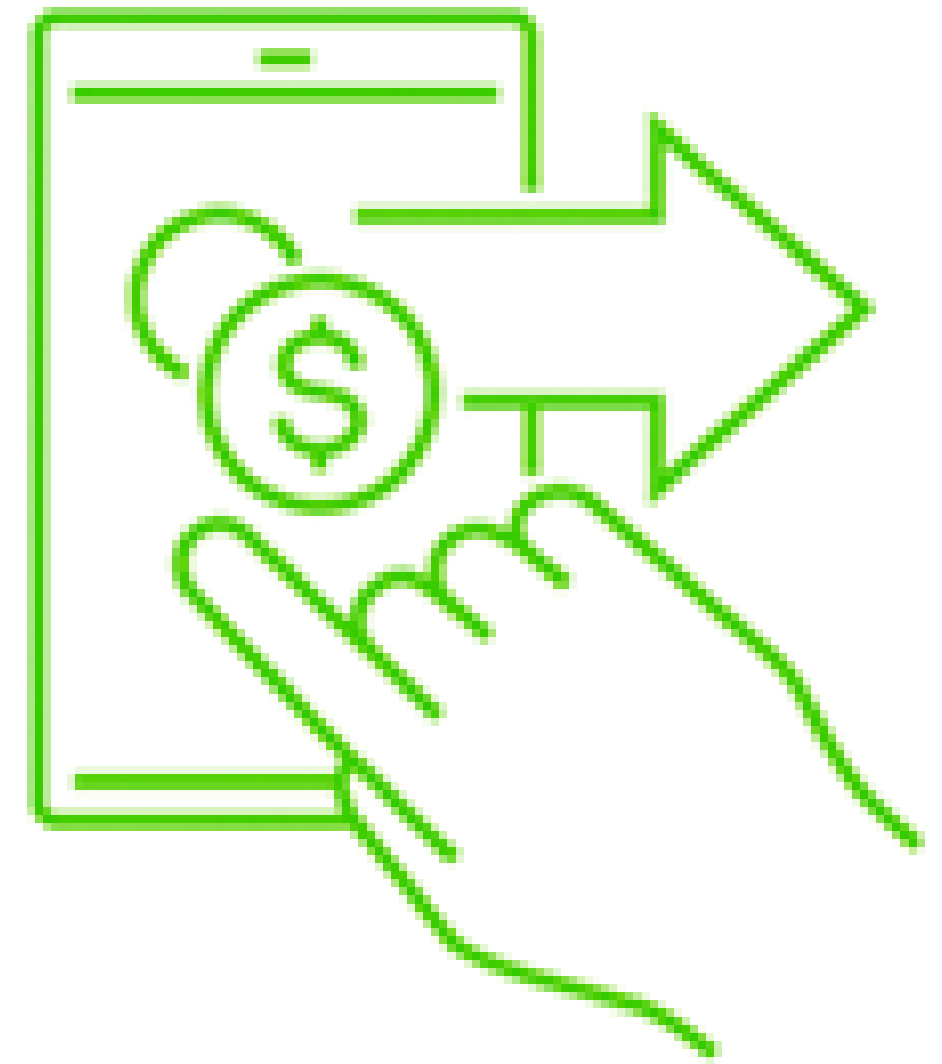
How to Improve the Duplicate Invoice Rate

- Implement automation
- Improve vendor management
- Use machine learning

Manual Payment Frequency

Percent of payments made outside of standard process

- Keep this percentage as low as possible, as manual processes are inherently more prone to human error and fraud
- An upward trend in manual payments, or a consistently high rate, should trigger an investigation to understand why exceptions are occurring



Vendor Master File Change Rate

Frequency of changes to vendor data

- Changes to banking information (**most critical for preventing fraud**)
- Changes to contact details, such as address or email
- Changes to legal name or tax identification number



Compliance Rate

Percent of invoices processed in line with internal policy or regulatory standards

What it measures:

- Adherence to policies
- Regulatory adherence
- Audit readiness

Why it's important:

- Mitigates risk
- Strengthens controls
- Improves efficiency



Strategic & Performance KPIs

These show how AP supports broader financial and organizational goals:

- Supplier Satisfaction / Dispute Rate
- Accounts Payable Turnover Ratio
- Automation Utilization Rate

Supplier Satisfaction / Dispute Rate

Percent of supplier disputes or complaints

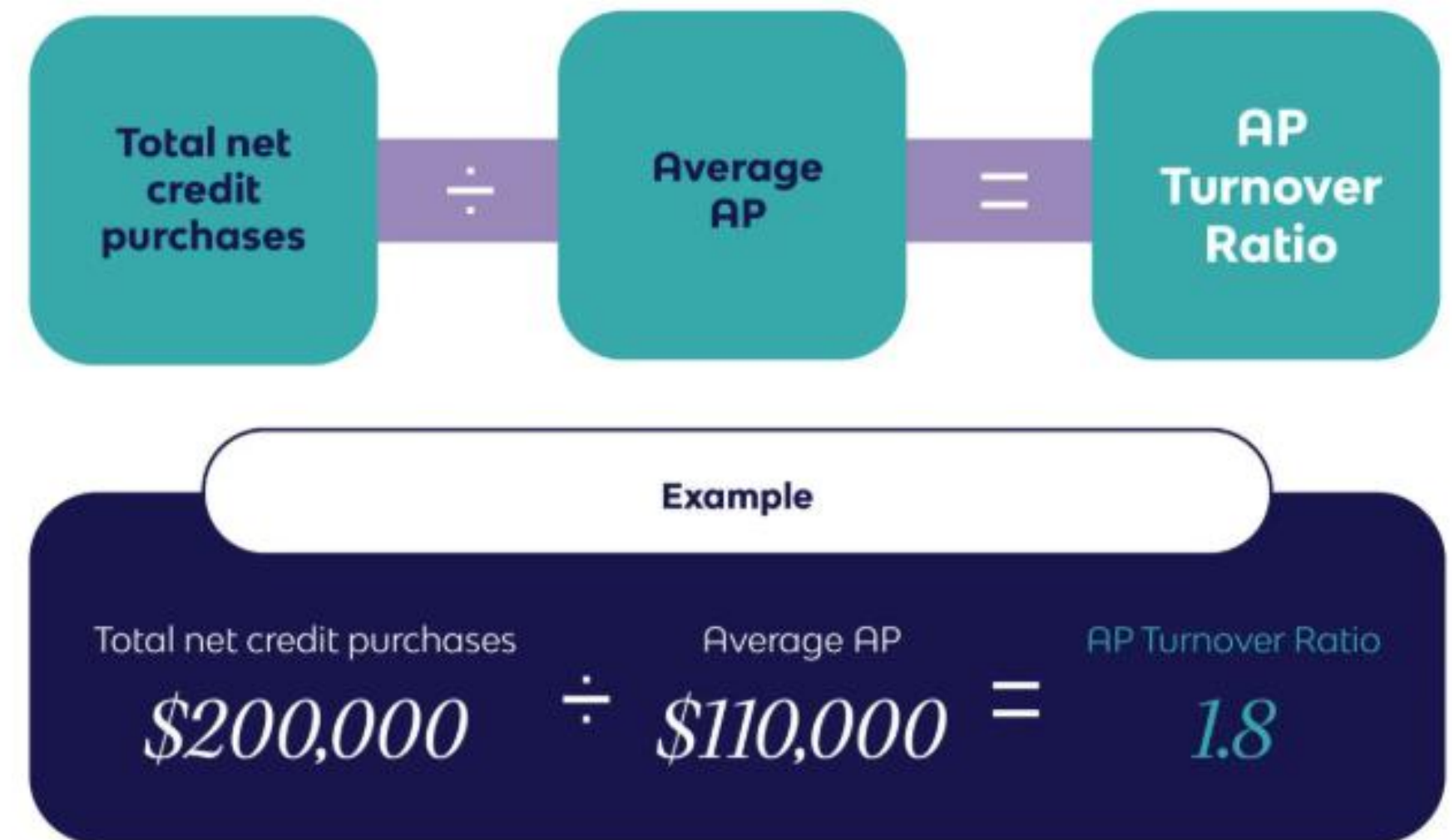
- **Why it's important:**

- Direct feedback
- Process improvement
- Vendor relationships
- Operational efficiency



Accounts Payable Turnover Ratio

- Shows how quickly a company pays its suppliers
- A higher ratio can suggest the company is paying its bills very quickly, while a lower ratio might indicate it is taking longer to pay
- Comparing this ratio to industry averages can provide insight into how a company's payment practices compare to its competitors



Automation Utilization Rate

Percent of invoices handled through automated workflows

- **Why it's important:**

- Reduces costs
- Increases speed
- Improves efficiency

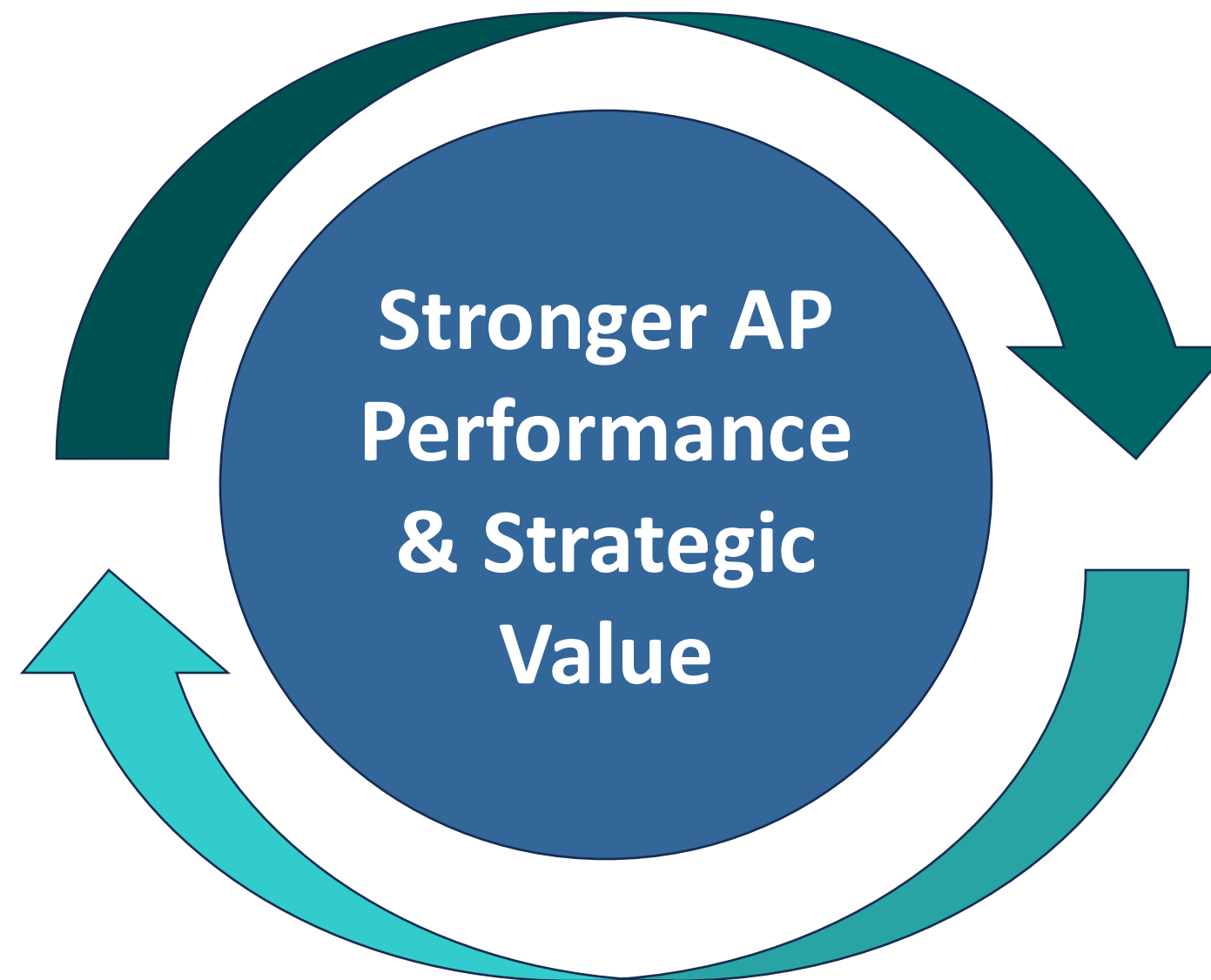


Benefits to Internal & External Benchmarking

INTERNAL BENCHMARKING



- Tracks AP's own trends over time
- Identifies performance improvements and bottlenecks
- Ensures consistency with organizational goals



EXTERNAL BENCHMARKING



- Compares AP KPIs to industry standards
- Highlights gaps and opportunities
- Demonstrates competitive advantage and best practice alignment

The Importance of Continuous KPI Review

**Ensures
efficiency gains
don't stagnate**

**Helps AP
align with
organizational
goals**



**Supports
compliance &
risk management**

**Drives long-term
cost savings &
vendor trust**

Why Dashboards & Analytical Tools Matter in AP



Key Takeaways

PICK



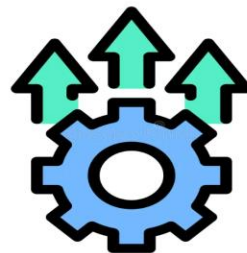
Choose 3-5 core KPIs that matter most

TRACK



Build and share a simple dashboard to monitor results

IMPROVE



Set goals and use KPI trends to drive process changes

QUESTIONS?

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