ePayables 2012: The State of the AP Market

Not Broken, Needs Fixing

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In the age of global, social, collaboration, it is the pursuit of dramatic innovations that capture attention and investment dollars. Despite the headlines, the reality is that almost all innovation is incremental and the enterprises that capture the most incremental innovation are the ones that typically win. In an accounts payable (“AP”) context, incremental innovation is about improving processes and systems to drive better performance; for most, it is about transforming an organization through the use of technology. Best-in-Class AP departments have been able to improve or fix their operations and drive significant gains as a result. These returns warrant the investment dollars needed to fix AP; it now falls to AP leaders to capture their executives’ attention. This report captures the strategies, performance and intentions of 220 organizations and highlights Best-in-Class AP operations and the strategies that drive their performance.

CHAPTER ONE – THE STATE OF AP

What Can Accounts Payable Do for You?

Over the past year, Ardent Partners has asked dozens of non-AP focused business professionals that question and their answers ranged from ‘nothing’ and ‘not sure’ to ‘pay our bills and payroll’ and ‘check invoices and answer inquiries.’ But within this wide-range of answers, very few touched upon anything other than the tactical act of processing an invoice or making payment. In 2012, most accounts payable (“AP”) groups have a very real opportunity to change the “answers” and begin to evolve from a highly-tactical function to one that creates broad-sweeping value for the enterprise. Consider that Ardent Partners’ research, including this report, continues to show that transforming an AP department is a wholly worthwhile venture that can deliver tremendous bottom line value and transform AP’s place within the organization. To get there, however, AP departments must transform the way they think and transform their processes and systems. While many successful AP transformations have been driven by the introduction of technology and an improvement in processes, AP often remains an afterthought; AP is also one of the least automated business functions within the enterprise.

The view of the AP department within most enterprises typically falls under the ‘if it ain’t broke, don’t fix it’ rule. But, there is a clear difference between working and working well. For most enterprises participating in this research effort, their AP process is not broken, per se – AP is working; however, most have significant opportunity to improve their efficiency and effectiveness to get AP working well.
This report shows that 45% of all invoice payments are manual (Figure 1). The reduction in manual payments has been a growing trend over the past few years and represents a steady improvement. The same cannot be said for invoices; however, as 71% of all invoices (Figure 2) received by AP departments in the market today are in paper format. High paper volumes remain a key indication of the manual, fragmented, and inefficient processes that cause processing delays and payment errors and make it all but impossible to gain timely and accurate visibility into invoice and payment data. High paper volumes constrain an AP department’s ability to positively impact the management of an enterprise’s cash as well as the overall effectiveness of its financial operations. High paper volumes, in a word, are a major part of the overall AP problem. The good news is that a vast majority (86%) of AP groups in the market today understands the “paper problem” and plans to focus on it in the short-term and increase the percentage of electronic invoices received over the next two years. Similarly, enterprises expect a shift towards electronic forms of payment over the next two years, primarily ACH and P-Cards due to not only lower processing costs but also the increased control and visibility that they offer (more on this in chapter 2).

**Figure 2: Paper Vs Electronic Invoices**

So, while AP is not broken, it definitely needs fixing. The potential that organizations have to improve AP operations and increase their contribution as a business function is both significant and real. The benefits that can be achieved go beyond the savings generated from reduced processing costs and can include things like enhanced financial management (e.g., working capital optimization) and improved supplier relationships. While the benefits realized via AP transformation and the path to improvement can be discussed at length (see also Chapter 3), it is ultimately left to the individual AP groups and leaders to make their case for transformation. To
make a compelling business case for AP investment and focus, these groups will need to (1) identify and involve key stakeholders (2) understand their current state (process, systems, challenges, costs, etc.) (3) gather organizational requirements and (4) define the ideal future state.

Ardent Partners’ research (Figure 3) has found that there is considerable business pressure to improve process efficiency within AP (52%), implying that more than half of all AP departments have inefficient and/or fragmented processes that need to be fixed. AP inefficiency can be both costly and time consuming and can deteriorate vendor relations and impede the ability to capture early payment discounts.

Figure 3: The Top Business Drivers Facing AP Today

<table>
<thead>
<tr>
<th>Business Driver</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve process efficiency</td>
<td>52%</td>
</tr>
<tr>
<td>Improve management of cash &amp; working capital</td>
<td>27%</td>
</tr>
<tr>
<td>Improve days payables outstanding (DPO)</td>
<td>23%</td>
</tr>
<tr>
<td>Reduce invoice/payment errors &amp; discrepancies</td>
<td>22%</td>
</tr>
<tr>
<td>Reduce percentage of exceptions</td>
<td>20%</td>
</tr>
<tr>
<td>Improve visibility into invoice &amp; payment data</td>
<td>18%</td>
</tr>
<tr>
<td>Improve payment performance</td>
<td>15%</td>
</tr>
</tbody>
</table>

The other business drivers facing AP today: the need to improve management of cash and working capital (27%) and improve “DPO” or days payable outstanding (23%). Cash is the life-blood of any business and in the long run a business cannot survive without generating positive cash flow. But, over the short and mid-term, how a company manages its cash inflows and outflows can be vital to survival. However, for AP to be in a position to make an impact at this level, the organization must first get its internal processes and systems in order.

While AP is increasingly under pressure to improve its efficiency and performance, sizable hurdles to success limit AP’s ability to do just that. As seen in Figure 4, the same challenges that AP has seen over the past decade remain today: highly-manual and paper-driven processes (43%) and lengthy processing times (36%). Due to the inefficiency in AP operations and their largely manual processes, AP is constrained in its ability to add value and become a more strategic component of an enterprise’s financial operations. For example, the lengthy invoice and payment processing times noted as a top challenge below prevent AP from being able to take a full advantage of early payment discounts, thereby limiting its influence on cash positions. When these issues exist, they need to be fixed.
Figure 4: The Top Challenges Facing AP Today

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highly manual and paper-driven processes</td>
<td>43%</td>
</tr>
<tr>
<td>Lengthy invoice and payment processing times</td>
<td>36%</td>
</tr>
<tr>
<td>Lack of visibility into invoice and payment data</td>
<td>25%</td>
</tr>
<tr>
<td>High invoice processing costs</td>
<td>23%</td>
</tr>
<tr>
<td>Late supplier payments</td>
<td>21%</td>
</tr>
<tr>
<td>High exception rate for inbound invoices</td>
<td>18%</td>
</tr>
</tbody>
</table>

AP Can and Should Be More Strategic

In 2012, AP is not much closer to being viewed as a “strategic function” than it was five years ago. However, AP organizational structures have evolved with 80% of all AP departments operating in either a centralized or shared services model (Figure 5). These models, which centralize staffing and budgets, leave AP departments in a better position to initiate a transformation and begin a program to improve AP processes and ultimately, improve AP performance.

With a majority of AP departments operating within a single framework (and single technology budget), the question remains - What is preventing AP from automating its processes? and more specifically, What is preventing AP from migrating off paper invoices to more electronic formats? According to 77% of all AP groups, getting suppliers to participate in an initiative that reduces paper invoices is the single biggest challenge. Since suppliers create the invoices, their participation is critical if electronic invoicing is to advance. If a majority of suppliers do not use an AP department’s eInvoicing solution, the full value of that solution will not be achieved.
Another challenge to migrating off paper is the difficulty of managing the internal change (58%) that is required to successfully automate and thereby, transform the AP function. Resistance to change is a huge organizational hurdle for most new initiatives and another reason why so many AP organizations accept the status quo (the ‘if it ain’t broke, don’t fix it’ maxim). But, transforming AP is as much about change management as it is about new technology and processes. The impact to the larger organization across many areas (business, people, process, and IT) should not be underestimated because the degree to which change is accepted will determine the success of the project. Another thing that is clear is that no matter the department structure and organizational reporting hierarchy, the ultimate success of an AP automation (or ePayables) project will depend heavily on support from executives and other key stakeholder groups like finance, treasury, procurement, and line of business.

Figure 6 also highlights that most AP groups are ready and willing for change and automation since the majority see significant value in the undertaking and only 31% of AP and finance leaders believe that the ROI on an ePayables investment is unclear. Lastly, a mere 18% have not prioritized AP automation within their organization.

We’ll say it again: AP can and should be more strategic. As shown in Figure 7, 69% of all enterprises have standardized their AP processes and slightly more than 40% currently have the ability to process invoices straight-through (Note: straight-through processing or “STP” is when an invoice is received, matched and validated and then scheduled for payment without human intervention). STP is a key factor in driving efficiency and cost reductions throughout the AP process. Figure 7 also highlights what capabilities respondents plan to invest in over the coming year. The research clearly shows a strong focus on more strategic areas. For instance, 48% of AP groups plan to implement policies/procedures around cash flow optimization, which, if done

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“Relieving AP of manual duties (data entry, supplier inquiries) and introducing more automation allowed us to capture $4.7MM in early payment discounts, in addition to reduced processing costs.”

- Director of Corporate Treasury, Large CPG Company
correctly, will allow an AP group to positively influence enterprise cash positions. Another priority in the coming year is for organizations to gain the ability to measure and monitor various AP metrics (46%), which is a critical element in any organization’s effort to continuously improve its performance. For instance, keeping track of and improving the cycle time to process invoices will help put the organization in a better position to capture more early payment discounts. Similarly, monitoring the percentage of invoices that are processed straight-through helps in the AP groups’ effort to improve efficiency.

**Figure 7: AP’s Internal Capabilities**

Looking out over the next year, there is also relatively strong interest in linking procure-to-pay (P2P) processes (42%) and systems (44%), which is critical for organizations that want to fully optimize the impact of both AP and procurement. Successful execution of the P2P strategies that impact cash positions requires a level of cohesion and visibility across the entire P2P process that is best supported by technology solutions. AP and procurement can and should work together to communicate the cash management opportunities that exist within and across their departments to the CFO and then seek the CFO’s engagement and sponsorship in deploying the P2P processes and systems that will optimize efficiencies, visibility, and critical business performance issues like savings and cash management.

Once an AP department has gained some or all of the capabilities mentioned above, it will be in a better position to engage the larger enterprise and support critical business objectives versus merely managing activities at the transactional level with little view into the bigger picture. ePayables solutions play a key role in transforming AP by enabling AP groups to gain better visibility and control of the process and allowing them to focus on value-added activities.
Collaboration

"Coming together is a beginning, staying together is progress, and working together is success."

- Henry Ford

Wikipedia defines collaboration as “Working together to achieve a goal. Collaboration is a recursive process where two or more people or organizations work together to realize shared goals.” As indicated by Ardent Partners’ research (Figure 8), 71% of all enterprises report ‘good collaboration’ between AP and treasury departments; however, AP’s level of collaboration with other constituents is at a lower level and leaves room for improvement.

**Figure 8: AP’s Level of Collaboration**

<table>
<thead>
<tr>
<th></th>
<th>Good Collaboration</th>
<th>Poor or No Collaboration</th>
</tr>
</thead>
<tbody>
<tr>
<td>AP &amp; Treasury</td>
<td>29%</td>
<td>71%</td>
</tr>
<tr>
<td>AP &amp; Procurement</td>
<td>41%</td>
<td>59%</td>
</tr>
<tr>
<td>AP &amp; Line of business</td>
<td>48%</td>
<td>52%</td>
</tr>
<tr>
<td>AP &amp; Suppliers</td>
<td>51%</td>
<td>49%</td>
</tr>
</tbody>
</table>

Although most enterprises lack a “collaboration mandate,” the potential benefits of successful collaboration are undeniable. The extent to which collaboration is approached in a more formalized manner (e.g., monthly meetings between AP and procurement) the better the combined results are likely to be. One goal of collaboration is to bypass the functional silos that plague many corporations. The P2P process, which is generally managed by two distinct functions, presents a clear opportunity for collaboration between functional peers.

The P2P process consists of a series of sub-processes that includes spend analysis, sourcing, contracts, procurement, invoice processing, and payment. Procurement typically focuses on the “front end” of the supplier relationship - identifying the highest value suppliers, negotiating, managing and supporting those supplier relationships, and ensuring that the desired goods and services are ordered and delivered to the right place, at the right time, and for the right price. Meanwhile, accounts payable typically focuses on receiving and processing supplier invoices, making payments, and managing communication with a supplier’s accounts receivable team.
the same time, treasury, a key stakeholder in the P2P process, focuses on making the decisions that align the management of the enterprise’s cash with its overall needs and objectives. The P2P process involves multiple moving parts and various stakeholders who are connected to every transaction in different ways. Despite these stakeholder connections to the transactions, in many enterprises, they remain disconnected from each other. By making a strong case for collaboration between these groups and driving better linkage across P2P processes and systems, the enterprise can leverage the strengths of each stakeholder to the benefit of all parties and the larger enterprise.

One of the best ways to generate a collaborative discussion and drive engagement is through the deployment and use of technology. This holds true for internal P2P collaboration as discussed above and it holds true for external collaboration as well. Take, for example, self-service supplier portals, which allow suppliers to review invoice and payment status through a web-based site instead of having to call the AP department for updates. These portals can also make it easier for AP and suppliers to settle disputes and errors by organizing and capturing the discussions around specific invoices or other documents and providing access to relevant information. Furthermore, the portal can help to ensure that nothing is missed by either side due to features such as email alerts and escalations.
CHAPTER TWO – THE EPAYABLES FRAMEWORK

The Ardent Partners ePayables Framework™ (Figure 9) helps AP departments evaluate the various processes within AP at a high-level and puts in place imaginary dividing lines that can act as a foundation to help better understand current processes. Ardent defines ePayables as the solutions that automate part or all of the AP process. The Framework looks at the three distinct phases of invoice processing: (1) how an invoice is received, (2) how it is processed, and (3) how it is paid. Each of the three phases has various sub-processes, steps, and formats that can vary across enterprises. By utilizing the ePayables Framework and breaking the AP process into smaller, more manageable segments, AP departments will be able to implement greater operational efficiency, enact stronger financial controls, and improve transactional visibility and flexibility. AP groups should use the ePayables Framework to help establish the current state of operations - “what is happening” - and use it as an opportunity to clearly define their new AP processes – “what should happen.” By developing a clear view into what scope of activities occur within each phase of the Framework and understanding what resources and systems are utilized and what processes are followed, AP departments will be better able to set standard practices and work to develop best practices. They will also be better able to identify the key drivers (and key obstacles) to improving performance. And, they will ultimately be much better able to build a case for investment and transformation.

Figure 9: Ardent Partners ePayables Framework™

Ardent Partners’ research was able to uncover the current and planned usage of each of the different ePayables technologies that are utilized throughout the AP process. Figure 10 shows that of all the technologies, electronic payments currently have the highest adoption rate (75%), followed by Document Imaging solutions at 65%. Interestingly, eInvoicing (50%) and Automated
Workflow (48%) showed the highest interest in terms of those planning to use these technologies over the next year. A detailed discussion of AP technology usage, as it maps to the Ardent Partners ePayables Framework™, is continued below.

**Figure 10: ePayables Technology Usage**

The “Receive” phase of the ePayables Framework refers to the manner in which an AP department receives its invoices, whether in a manual way through the mail, via fax or email, and/or in a more automated way using Scan and Capture, elInvoicing, or EDI solutions. As the first step in the process, the manner in which invoice data is received impacts the speed and ease in which it goes through the entire system for further processing and payment.

“Process”, the second phase in the ePayables Framework, is where the received invoices are managed and approved. This process phase typically includes:

- **Validation** – Ensures that there are no errors or discrepancies and that the correct information like supplier name, address, date, invoice total, etc. is included on the invoice.
- **Matching** – Ensures that the items were, in fact, ordered; that the pricing and quantity are correct; and that all of the items were received. The invoice is typically matched against a purchase order (PO), goods received note (GRN) and/or a contract.
Approval – If there are no errors or disputes that need to be resolved with the supplier, the invoice is then routed to the appropriate person for approval (unless it is processed straight-through).

Scan, Capture & Workflow Solutions

Scan and Capture solutions (sometimes referred to as Document Imaging and Data Capture solutions) automate the “Receive” and “Process” phases of the AP process. The primary role of these solutions/services is to take paper-based documents and transform the data that lies within them into a usable electronic format which can then be processed in a more automated and efficient manner. This is made possible by first scanning invoices and then using the scanned image to identify, extract, and capture the relevant invoice data. Data can be captured from paper invoices, email attachments (e.g., PDFs) and faxed invoices. Methods of capture include OCR, ICR OMR or dual pass data entry (see Appendix for these definitions). Once data is extracted from the invoice, it is validated against various rules (e.g., date validation, invoice total validation, vendor number validation, etc) and data (e.g., vendor master data) and can be matched to PO’s or other documents. When a solution or service has been successfully deployed, invoices that match all of the pre-configured routing and approval rules can be processed straight-through. Those that are not automatically matched within the pre-defined threshold and those that contain errors or discrepancies are considered exceptions and are routed to the appropriate personnel for resolution. Most of the solutions or services that perform these activities also store the scanned invoices images in a centralized repository for easy access in the future.

Ardent Partners’ research shows (Figure 11) that there is fairly wide-spread usage of Document Imaging solutions (which scan manual invoices and transform them into images) in the market (65%) but more limited adoption of Data Capture solutions (30%) which means that a significant portion of AP groups are simply scanning invoice images for storage or for use with a document management system and not for further data capture. Although, this may be sufficient for some organizations, Data Capture solutions which identify, extract, and capture data from a scanned image of an invoice can be of significant value and introduce a higher level of visibility and efficiency. Perhaps because of these benefits, more respondents have shown an interest in using Data Capture solutions or services versus Document Imaging over the next 12 months (32%). Regarding the adoption of Automated Workflow solutions, which automate and provide visibility into the workflow process around invoice resolution and approval, there is sizable current usage (42%) and relatively strong interest in future usage (48%).
Solutions and/or services that offer a scan and capture capability present AP organizations with a rapid first step towards automating their processes and minimizing paper’s negative impacts once it hits AP. However, there are multiple Scan and Capture solutions in the market with different features and packaging. So, what do AP groups look for in these solutions and what is important to them? According to Ardent Partners’ survey, the most important feature that enterprises look for is the ability to capture data from email attachments, in addition to paper invoices (60%).

Today, suppliers who submit manual invoices are very likely to send invoices via an email attachment (often a PDF). Processing a PDF invoice is as labor-intensive as processing a hard-copy paper invoice because the data still has to be manually entered; that is, unless the data can be accurately identified and captured directly from the PDF. Having the relevant data in an electronic format before proceeding to the next phase of the process (validation, matching and approval) will ensure a more automated approval process with a quicker turnaround and a higher level of accuracy. This brings us to the second most important feature desired in Scan and Capture solutions: automated routing and approval workflow (51%). This is a capability that significantly reduces the time between and during reviews and approvals by all parties. Once the invoice data is captured and validated, it is then processed through an automated workflow tool that is typically based on a pre-configured hierarchy and set of business rules. For example, invoices over a certain dollar amount will only go to those approvers with the proper authority to approve them or, if an approver takes too long to act on an invoice, an alert may be sent to the approver’s manager to take notice or action.

**eInvoicing Solutions**

eInvoicing solutions also allow organizations to electronically manage the “Receive” and “Process” phases of the Framework. eInvoicing is typically a solution that is deployed and initiated by AP organizations, which then ask vendors to participate in the initiative. These solutions can take a network approach to connecting the buying and selling organizations and allow trading partners to interact with each other in a fully-automated and electronic way; but, not all eInvoicing solution providers have a network of connected suppliers. With certain broader solutions, buyers are able to send purchase orders to their enabled suppliers who can, in turn, submit electronic invoices and other documents such as advanced shipment notices back.

eInvoicing solutions have the potential to drastically reduce processing costs and introduce a higher level of accuracy by completely removing paper from the AP process. With eInvoicing, an
invoice is created in an electronic format and remains in that format through the validation and matching process. However, the success of an elnvoicing program is highly dependent on the level of participation from suppliers.

While still not widely adopted, elnvoicing is gaining in popularity as almost half of all AP departments showed interest in adopting an elnvoicing solution over the next 12 months (Figure 12). Other solutions that respondents showed interest in were Supplier Networks (40%) and End-to-End ePayables solutions (34%), which can automate the entire AP process (receive, process and pay).

For AP leaders, the most important aspect of selecting an elnvoicing solution is the ability to accept multiple invoice formats (59%). The acceptance of multiple invoice formats (e.g., EDI, XML, PDF) is helpful because it allows suppliers to submit invoices in their usual format and relies on the system or a service to convert them to the new electronic standard. 53% of AP leaders desire an elnvoicing solution that includes automated routing and approval workflow capabilities. 51% of AP departments believe that it is important for an elnvoicing solution provider to offer a Scan and Capture solution/service to help manage the suppliers that continue to send paper. Lastly, almost 40% of AP departments feel that a self-service Supplier Portal is an important aspect of an elnvoicing solution and can reduce time spent on inquiries.

**Supplier/Payment Networks**

Supplier Networks have existed for many years and over the initial years slowly gained in popularity. Today, however, these networks are a quickly growing trend and an increasingly cost effective and efficient means to process business transactions. Figure 10 shows that the current usage levels of supplier networks remains fairly low (19%), but a significant spike in interest is expected over the coming year (40%). There are four major differentiators between the different networks:

- The number of existing and active suppliers in the network
- The geographic reach of the network
- The vertical focus of the network
- The solution capabilities made available to buyers and sellers.

Many networks are specialized and tend to focus on specific regions/countries or industries (e.g., oil and gas or automotive) whereas others have broader coverage and offer a wider solution footprint. All in all, Ardent Partners believes that the (B2B, supplier or elnvoice) network trend will continue to grow and have a lasting impact on the way business is conducted.

While the network trend is growing fast, there are many different features and capabilities that the different networks offer. Figure 13 shows the various aspects and features of supplier networks that AP professionals consider most important.
When it comes to networks, size matters. Half of the market looks at the number of existing suppliers on the network as the most important criteria in selecting a network provider. This is understandable since the bigger the network, the higher the “match rate” (the percentage of an enterprises suppliers that are currently active on a given supplier network) is likely to be. The effort and time to onboard suppliers is significantly reduced with higher match rates; and, having suppliers already transacting on the network is viewed as a strong plus.

Other key factors used by AP leaders in selecting a network, include the global reach of the network (42%) and the buyer’s cost per transaction (35%). Interestingly, one-third of AP groups noted that an important network feature is the ability for buyers and suppliers to collaborate. Easier and improved methods of collaboration can have a direct impact to supplier relationships and performance. For example, collaboration between buyers and suppliers today is largely conducted via traditional methods, phone calls, emails or meetings; networks, however, can enable a higher level of connectivity between trading partners and can increase the time available for strategic interaction and communication by decreasing the time spent on tactical matters. Also, the increase in quality of the communication can be improved similar to how social networks have dramatically impacted personal communication and interaction.
Pay Phase

Once an invoice is validated, matched, and approved, the final step is the scheduling and execution of the vendor payment. While the majority of payments are made via paper check, more enterprises are migrating away from manual methods and towards electronic forms of payment (or ePayments). ePayments include commercial cards (e.g., P-Card), ACH, and wire transfers. Figure 14 shows the percentage of AP leaders who expect the different types of payment methods to increase in usage over the next 2 years. 65% of that group said that the usage of ACH payments will increase over the next two years while 53% said the same of P-Cards and other commercial cards. Notably only 2% expect to increase their usage of checks.

Although they are significantly more costly to process and offer a lower level of security and control to the payer, paper checks remain the dominant type of payment made today. Checks involve various hard costs (e.g., printing and mailing) as well as hidden costs (e.g., returning checks, wrong addresses, etc) as opposed to ACH payments which can be executed at a standard fee ($0.10 - $0.50 per payment, on average). Purchasing cards (“P-cards”) also offer lower processing costs and greater spend visibility than paper checks and have the literal extra bonus of paying buyers a percentage of card volume via a rebate program.

While P-Card programs were designed to streamline low-dollar, high frequency purchases, card usage is gaining more sophistication with some enterprises are using them for more complex and larger purchases like services spend and capital equipment. And as more and more suppliers continue to accept cards and desire prompt payment, AP departments increasingly use P-cards to pay invoices directly, decoupling the purchase from the payment. The security and authorization features offered by most P-card (and other commercial card) providers today are quite advanced offering a level of control that is not available from other payment types; for example, P-cards can provide a unique account number for each transaction to help counteract fraud and restrict and/or authorize transactions and payments based upon defined dollar amounts, categories of spend, supplier names and time frames. Additionally, the detailed level of data that can be accessed by using P-Cards and other commercial cards provides an audit trail to ensure compliance to policies and contracts can help enterprises better understand their spending behaviors.

Like all other ePayables solutions, a main challenge with electronic payments lies in the ability to enable its suppliers. Fortunately, the value of timely payments and cash in general can serve as an enticing carrot for suppliers who are resistant to change.
**AP’s Impact on Cash Management**

It is during the “Pay” phase of the process that AP can work closely with treasury and finance to develop more sophisticated payment strategies and implement processes to optimize working capital. This can be of immense value to the enterprise. As AP groups begin automating their processes and gaining (and sharing) real-time access to invoice and payment data, they are in a better position to influence and support the cash management strategies that treasury and finance wish to implement. In manual environments, the inefficiency and lack of visibility make it all but impossible to leverage any of the valuable data that lies within AP. Data that can be utilized to support financing programs such as supply chain financing as well as activities that can have a more immediate impact such as capturing early payment discounts. In fact, according to 62% of this survey’s respondents, capturing early payment discounts has become moderately or significantly more important over the last two years.

One such technology that allows organizations to capture these discounts in a more programmatic and controlled manner is Dynamic Discounting, a tool that allows buyers and suppliers to dynamically offer and accept new payment terms to take advantage of early payment discounts. Dynamic Discounting solutions can benefit both buyers and suppliers since buyers can reduce their costs and get a much higher return on their cash and suppliers can get paid quicker. The ability to capture more early payment discounts offers organizations a tremendous potential return on their cash, for example, the return to a buyer who pays an invoice with a “two-10 net 30” term (the buyer subtracts 2% from the invoice total if it is paid within 10 days) on the 10th day is more than 36% annualized. On the other hand, suppliers benefit by getting paid quicker and by having more visibility into and control over their receivables. As previously shown in Figure 8, the usage of dynamic discounting over the next year is expected to grow with 26% of AP groups looking to start utilizing Dynamic Discounting.

According to AP leaders, (Figure 15) the capabilities that are currently in place within their departments to manage working capital include commercial cards or P-Cards (57%) and payment automation (52%). These capabilities allow organizations to have more control and visibility into the payment process. For example, using a P-Card saves time since there is no need to create purchase requisition and generate a PO. P-Cards can also aid in the management of cash by offering short-term credit to the buyer. With P-Cards, suppliers get paid immediately without having to submit an invoice and wait for a payment. In recent years, more AP departments report using their corporate cards to pay invoices directly.

“Due to the changes made in AP, we have been able to introduce more efficiency and impact key financial metrics. As a result of our AP initiative we were able to improve DPO by 5 days representing $9MM in unlocked working capital per day”

- Director of Finance at a Large Food and Beverage
A less obvious area that impacts working capital management is supplier enablement where 51% of respondents reported a high interest. Now, what does supplier enablement have to do with working capital optimization? It is a crucial first step in removing paper and automating the transactions between the buyer and seller, thereby significantly improving visibility into payables and receivables. Once suppliers are enabled to submit e-invoices and/or accept electronic payments on a platform, they gain improved visibility and control into the process and are better able to offer and accept early payment discounts.

Other capabilities that AP organizations are looking to gain over the next year to better manage their working capital include AP process automation (49%) and the automation of the entire P2P process (45%).

**Figure 15: Working Capital Management Capabilities within AP**

![Bar chart showing working capital management capabilities within AP](chart.png)

**Procure-to-Pay Opportunities**

While collaboration remains an important business trend, the fact of the matter is that AP and procurement are already linked together. This is because these two departments, whether they realize it or not, are working two sides of the same coin and literally managing two parts of the same P2P transaction. While the performance of each group, at a high level, can certainly drive value for the larger enterprise, it is only after both of these processes are well managed and tightly linked that a P2P organization can begin to realize its full potential and become a truly strategic operation that supports key business objectives.
A P2P process that is well-aligned from an organizational standpoint and tightly-linked and automated from a process standpoint will present a series of opportunities that procurement and finance can jointly pursue to the benefit of the entire enterprise. Many of these opportunities are a by-product of having visibility into spend, invoices, and processes across the P2P spectrum. A whole host of abilities (and benefits) can arise from P2P visibility including:

- An ability to optimize working capital across the P2P process by developing proactive payment strategies and pursuing dynamic discounting opportunities
- An ability to better identify sourcing opportunities and thereby, increase savings
- An ability to improve contract compliance and reduce maverick spend and thereby, save money
- An ability to place more spend under the management of procurement and thereby, improve procurement’s effectiveness
- An ability to track supplier performance and thereby improve it
- An ability to minimize exceptions and errors and thereby speed invoice processing
- An ability to measure and improve departmental performance and customer service
- An ability to improve supplier relationships by being able to pay suppliers on time (or early) and more accurately, having fewer inquiries and improving response times.
CHAPTER THREE: ACCOUNTS PAYABLE PERFORMANCE

This chapter on AP performance is designed to help the readers accomplish four things:

1. Understand what metrics AP leaders use to measure their department’s performance
2. Benchmark their AP performance to industry averages and understand how they are performing relative to the average AP department
3. Understand what operational and performance metrics define Best-in-Class performance levels for AP departments
4. Understand what the Best-in-Class (BIC) AP departments are doing (or not doing) to outperform their peers

As shown in Figure 7 above (Page 8), the ability to measure and monitor AP metrics is something that only 36% of AP groups currently have, although 46% have reportedly prioritized them and plan to develop them in the near term. Establishing and measuring relevant metrics is an important part of any business function since it allows for continuous improvement and provides the opportunity to set goals and objectives. For example, a standard metric measured by AP departments is the number of invoices processed per staff member. In a manual environment this number is fairly low due to the hands-on tasks that need to be completed (e.g., data entry, approvals, supplier inquiries, etc). However, in an automated environment, most, if not all, of these tasks are automated, enabling fewer staff members to process the same volume of invoices.

Ardent Partners believes that the metrics shown in Table 1 are many of the key metrics that AP groups should track in order to improve overall performance.

Table 1: Accounts Payable Metrics

<table>
<thead>
<tr>
<th>Operational Metrics: These are process related metrics</th>
<th>Percentage of electronic invoices received vs. paper</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Invoice processing cycle time</td>
</tr>
<tr>
<td></td>
<td>Number of invoices processed per AP staff member</td>
</tr>
<tr>
<td></td>
<td>Percentage on-time payments</td>
</tr>
<tr>
<td></td>
<td>Cost to process an invoice</td>
</tr>
<tr>
<td></td>
<td>Percentage of invoices process straight-through (Touchless)</td>
</tr>
<tr>
<td>Financial Metrics: These are metrics important to enterprise financials</td>
<td>Goods received not invoiced (GRNI)</td>
</tr>
<tr>
<td></td>
<td>Percentage of early payment discounts captured</td>
</tr>
<tr>
<td>Supplier Metrics: These are metrics that track supplier performance and activity</td>
<td>Number of supplier inquiries</td>
</tr>
<tr>
<td></td>
<td>Number of disputes</td>
</tr>
<tr>
<td></td>
<td>Percentage of suppliers enabled</td>
</tr>
</tbody>
</table>
Performance Benchmarks

A key theme of this report has been AP automation and removing paper from the AP process, but with such a high percentage of paper invoices being processed in today’s market, it is no surprise that the average cost to process an invoice is $19.10 (Table 2), although this cost has trended downward over the last few years. The impact of manual inefficiencies can also be seen in other metrics such as the number of invoices processed per full-time employee (“FTE”) at 1,750 per month; a number which can be significantly higher if an organization has a high PO-compliance rate and receives a high percentage of invoices electronically that are processed straight-through. This, in turn, also has an impact on how long an invoice takes to get processed (i.e. invoice processing cycle time). Both of these metrics are key drivers of the cost to process an invoice.

Table 2: The AP Benchmarks: Market Average

<table>
<thead>
<tr>
<th>Metrics</th>
<th>Market Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost to Process an Invoice</td>
<td>$19.10</td>
</tr>
<tr>
<td>Number of Invoices Processed per AP Staff Member (per month)</td>
<td>1,750</td>
</tr>
<tr>
<td>Invoice Processing Cycle Time (receipt to approval)</td>
<td>10.4 Days</td>
</tr>
<tr>
<td>Percentage of Invoices Received Electronically</td>
<td>29%</td>
</tr>
<tr>
<td>Percentage of Invoices Paid On-time</td>
<td>81%</td>
</tr>
<tr>
<td>Vendor Payments with Errors</td>
<td>5.6%</td>
</tr>
<tr>
<td>Vendor Invoices with Errors</td>
<td>10.3%</td>
</tr>
</tbody>
</table>

Best-in-Class Performance

This section will discuss the performance and operational results of Best-in-Class organizations as compared to all other enterprises. Ardent Partners defined Best-in-Class performance in this research effort as the 20% of enterprises with the lowest average invoice processing costs and the highest number of invoices processed per staff member. This means that enterprises that have a cost per invoice of less than $2 and are processing more than 4,000 invoices per full-time employee (“FTE”) per month are operating at a Best-in-Class level according to Ardent Partners.

Processing Performance

<table>
<thead>
<tr>
<th>Metrics</th>
<th>Best-in-Class</th>
<th>All Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost to Process an Invoice</td>
<td>&lt;$2</td>
<td>$23</td>
</tr>
<tr>
<td>Percentage of Invoices Received Electronically</td>
<td>67%</td>
<td>13.3%</td>
</tr>
<tr>
<td>Number of Invoices Processed per AP Staff Member / month</td>
<td>&gt;4,000</td>
<td>1,400</td>
</tr>
<tr>
<td>Vendor Invoices with Errors</td>
<td>7.6%</td>
<td>14%</td>
</tr>
</tbody>
</table>
Those organizations that have achieved Best-in-Class performance are able to process invoices at less than $2 per invoice. A large part of their superior efficiency is due to the reduction in the use of paper/manual systems and processes. On average, these organizations receive 67% of their invoices in some electronic format. Also, Best-in-Class companies are able to process a much higher number of invoices per FTE (4,000) which has a large impact on their AP costs when compared to all other organizations, which average 1,400 per FTE.

One way that Best-in-Class companies are able to achieve this level of efficiency is by setting up systems and processes that allow for a certain percentage of invoices (those that meet pre-configured requirements) to be processed straight-through (i.e., no human intervention). This way, AP staff members can focus on managing any exceptions to these requirements. Additionally, these organizations have a lower percentage of invoices that are received with errors, primarily due to the streamlined processes and the level of visibility provided to the supplier which helps stop errors at the source. For example, if a supplier has the capability to flip a PO into an invoice, the room for error is drastically reduced. For those who are not Best-in-Class, approximately 14% (roughly twice the Best-in-Class figure) of all invoices received contain errors which increase the amount of time and expense the AP staff has to spend on the invoice.

<table>
<thead>
<tr>
<th>Metrics</th>
<th>Best-in-Class</th>
<th>All Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invoice Processing Cycle Times (receipt to approval)</td>
<td><strong>3.8 Days</strong></td>
<td><strong>14.8 Days</strong></td>
</tr>
</tbody>
</table>

An essential component of being able to capture early payment discounts is the ability to process an invoice and have it ready for payment in time to capture any potential discounts. The Best-in-Class report invoice processing cycle times of approximately 3.8 days versus almost 15 days for their competitors. A large part of being able to efficiently process an invoice (in addition to straight-through processing) is having the ability to automatically route invoices to the appropriate reviewers and enable them to quickly and easily review an invoice by providing easy access to relevant data (e.g., vendor master data). Also, providing users some level of visibility into the process ensures that they complete their tasks in a timely fashion. For example, showing how many other people need to review the invoice or how long the process has taken and letting the user know that if action is not taken by a certain time the invoice will be routed to another person. Needless to say, a manual environment can make these processes unnecessarily drawn out.
Payment Performance

<table>
<thead>
<tr>
<th>Metrics</th>
<th>Best-in-Class</th>
<th>All Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of Invoices Paid On-time</td>
<td>96%</td>
<td>72%</td>
</tr>
<tr>
<td>Vendor Payments with Errors</td>
<td>2.8%</td>
<td>7.5%</td>
</tr>
</tbody>
</table>

Last but not least, measuring payment performance is an important part of supplier relationship management. A key metric that AP groups and suppliers track but one that can be important to procurement since having a high ‘paid on-time’ percentage is always beneficial to supplier relationships; something that can be leveraged during future negotiations. Best-in-Class organizations have a near perfect paid on-time percentage (96%) while their competitors make payment mistakes 2.7 times more frequently.

Best-in-Class performance is made possible due to the high level of accuracy and control that is maintained throughout the AP process - from receipt to process to pay – and automation plays a key role. Best-in-Class enterprises receive more than 5 times as many electronic invoices than their competitors. It goes without saying this is the major reason why their invoice processing costs are more than 90% less than all other AP groups. Electronic invoices can be processed using configurable and complex matching and validation rules to ensure accuracy while also being able to quickly identify issues and errors. Beyond, dramatic process savings, Best-in-Class AP operations successfully leverage technology to transform their function into a strategic component of an enterprise’s financial operations. With less time spent on tactical activities, these groups can invest more time in collaborating with partners and supporting strategic initiatives. Attention AP departments spending $20 or $15 or even $10 to process an invoice: your operations may not be broken, but they need fixing.
CHAPTER FOUR: STRATEGIES FOR SUCCESS

Best-in-Class AP departments have successfully elevated their function to become a strategic component of the enterprise. These leading groups have achieved optimal levels of processing efficiency and are able to align systems and processes to ensure a high level of visibility and control. By taking a holistic approach and by leveraging technology to a higher degree than their peers, they have been able to automate a larger portion of their processes and increase their focus on strategic activities. The Best-in-Class are also better able to provide visibility into real-time invoice and payment data to other groups within the organizations such as treasury and procurement. Ardent recommends the following strategies and approaches for AP departments seeking to not only improve their performance but to transform their organization’s value and place within the enterprise.

• **Migrate off paper, by any means necessary** – The high costs of processing manual invoices results in large inefficiencies and missed opportunities. As such, removing paper from the process should be a top priority. Take whatever method is most accessible and appropriate for your organization. One approach to consider is the multi-solution or portfolio approach to removing paper. In this strategy, groups may utilize eInvoicing and put in place strategies to maximize the number of invoices received in this manner while also deploying scan and capture capabilities to handle those suppliers that continue to send paper invoices. Establish migration goals and track the percentage volumes for both manual and electronic invoices and payments to ensure the targets are met.

• **Leverage ePayables solutions to transform AP** – An accounts payable department seeking to improve its performance has several key areas upon which to focus: efficiency, effectiveness, and accuracy. An investment in ePayables can help the average AP group drive performance improvement across each of these areas. If an AP transformation is going to have a lasting impact it should take into account the entire AP process, whether taking a phased approach (automating one part of the process) or a “big-bang” approach (automating the entire process).

• **Develop a supplier enablement strategy** – Supplier enablement is the Achilles’ heel of the P2P world and is one of the biggest risks to a successful ePayables project. Once an ePayables solution is selected, develop a plan to enable as many suppliers as possible in the shortest timeframe available. A strong and well-managed communication campaign can make the difference between a small percentage of suppliers being on-boarded or a sizeable majority. The execution of the
communication is as important as the message itself: make sure that the right suppliers receive the right message. Investigate Payment/Supplier Networks to determine if any have a good percentage of your current suppliers already enabled. Leverage your solution provider or other third-party services to manage the process. These experts can help to create, manage and execute an on-boarding program that involves different levels and formats of communication (e.g., emails, letter, and calls) and work to continuously monitor progress. Finally, when it comes to supplier enablement, forget Pareto and the 80-20 rule and work to activate more than 20% of your suppliers.

- **Strive for straight-through processing (STP)** – STP occurs when all invoices that meet pre-configured requirements are received, validated, matched and scheduled for payment without human intervention. Once a system that supports STP is deployed and well-adopted, AP staff members can focus their efforts on exception management and other higher-value activities. Since the cost of processing an exception is so much higher than that of other invoices, it is important for organizations to focus on reducing its exception percentage by working with suppliers and internal stakeholders to determine the root cause of exception issues and eliminate them.

- **Develop an electronic payments strategy as part of the AP transformation** – An AP transformation effort should include a plan to migrate from manual and paper-based payments. Electronic forms of payment or ePayments (e.g., P-Cards and ACH) offer organizations significant cost savings versus manual methods as well as improved security, control, and visibility into payments. Paper checks are notoriously costly to process as they involve a labor-intensive process and have additional costs such as printing, mailing, bank fees, etc. While 75% of the market have used some form of ePayments, the overall percentage of electronic payments at the average enterprise is low and can be greatly improved. Again, leveraging Payment Networks can help drive greater ePayment volumes.

- **Use ePayables to provide visibility; share and engage with treasury** - Heightened volatility and increased business risk have combined with tight and uncertain credit markets to ensure that having cash and maintaining direct access to it will remain a priority of the first order for most finance leaders over the next few years. Ardent Partners’ research has shown that when deployed properly, ePayables solutions have the dual benefit of driving significant process efficiencies across the AP function while also enabling finance and treasury professionals to gain greater visibility into current and future liabilities and develop proactive strategies to optimize working capital. By leveraging technology, AP groups are in a position to collaborate with and support treasury in their efforts to optimize working capital.
APPENDIX

Data Capture Method Definitions

OCR stands for Optical Character Recognition. OCR is the recognition of printed or written text characters by a computer. It is the application software that allows a computer to recognize printed or written characters, e.g. letters, numbers, punctuation marks, and pictograms using an optical scanner for input. OCR is being used by libraries to digitize and preserve their holdings.

OMR which stands for Optical Mark Recognition is the process of gathering data with an optical scanner by measuring the reflectively of light at predetermined positions on a surface.

ICR is the computer translation of hand printed and written characters. Data is entered from hand-printed forms through a scanner, and the image of the captured data is then analyzed and translated by sophisticated ICR software. ICR is similar to optical character recognition (OCR) but is a more difficult process since OCR is from printed text, as opposed to handwritten characters.

Dual Pass Data Entry is a process used to accomplish accurate manual data entry. In this process, two individuals enter the same data into a system; the system then confirms the data if both entries are identical.
ABOUT ARDENT PARTNERS

Ardent Partners is a Boston-based research and advisory firm focused on defining, advancing, and promoting the accounts payable, procurement, and supply management strategies, processes, and technologies that drive business value and accelerate organizational transformation within the enterprise. Founded by Andrew Bartolini, Ardent also publishes CPO Rising and Payables Place, two websites which each provide analysis, news, and insights on the most important issues facing supply management professionals. Register for access and discounts to Ardent Partners research at ardentpartners.com/newsletter-registration.

ABOUT THE AUTHOR

Vishal Patel, Research Director and VP of Client Services at Ardent Partners

Vishal Patel is a recognized expert in the world of supply management. He has worked closely with procurement and accounts payable groups for most of his career, researching their best practices and advising them on how to utilize technology to improve organizational performance. Vishal is the lead analyst for Ardent’s ePayables (Accounts Payable automation) coverage and is also responsible for the oversight of certain AP solution selection and benchmarking projects.

Vishal is also the author of the ePayables SMARTSet™, a low-cost, comprehensive set of research tools and templates designed to guide organizations through the process of automating their process and selecting the best-fit solutions for their specific requirements and budgets.

Vishal joined Ardent from a technology provider, where, as Director of Business Development, he helped establish and grow the company’s US business by helping corporations de-couple their marketing supply chains and drive significant savings. Earlier in his career, Vishal was a Research Director in the Global Supply Management research practice at Aberdeen Group where he led and supported the coverage of many key areas including contract management, commercial cards, ePayables, and complex category management. Vishal has conducted primary research, benchmarking and interviewing hundreds of procurement and accounts payable organizations and authored dozens of reports that highlight the strategies and technologies that enable Best-in-Class performance.

Vishal has been named a “Pro to Know” by Supply and Demand Chain Executive and holds a B.S. in Finance and International Business from The Pennsylvania State University and an M.B.A from Babson College. He welcomes your comments at vpatel@ardentpartners.com or +1. 917.470.9522.
RESEARCH METHODOLOGY

Ardent follows a rigorous research process born from years of market research experience conducted in the accounts payable (“AP”) market. The research in this report represents the web-based survey responses of 220 business professionals and includes interviews from several accounts payable and finance executives. To expand the scope of this report, The Institute of Financial Management (“IOFM”) contributed some survey responses from an earlier study to this effort. These roughly 220 participants shared their strategies and intentions, as well as their operational and performance results to help us define Best-in-Class AP performance and understand what levers the leading groups pull to obtain their advantage. This primary research effort is based upon the survey responses, interviews, and the experience and analysis of the report author. Complete respondent demographics are included below.

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REPORT DEMOGRAPHICS

The research in this report is drawn from respondents representing the following demographics:

<table>
<thead>
<tr>
<th>Job Function</th>
<th>Company Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable  – 64%</td>
<td>Over $5 billion – 25%</td>
</tr>
<tr>
<td>Finance – 17%</td>
<td>$1 to $5 billion – 27%</td>
</tr>
<tr>
<td>Procurement – 10%</td>
<td>$500 million to $1 billion – 12%</td>
</tr>
<tr>
<td>Other – 9%</td>
<td>$250 million to $500 million – 13%</td>
</tr>
<tr>
<td></td>
<td>Under $250 million – 23%</td>
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<table>
<thead>
<tr>
<th>Title</th>
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</thead>
<tbody>
<tr>
<td>C-Level – 30%</td>
<td>North America – 65%</td>
</tr>
<tr>
<td>Senior Director – 14%</td>
<td>Europe – 32%</td>
</tr>
<tr>
<td>Manager – 29%</td>
<td>Other – 3%</td>
</tr>
<tr>
<td>Other – 27%</td>
<td></td>
</tr>
</tbody>
</table>

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