

How to Outsource Your AP Function for Long-Term Success:

Step-by-Step Guide



CONSULTING & OUTSOURCING

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An illustration on a yellow background showing a hand holding a pie chart with a blue slice and a white slice, and another hand holding a bar chart with three bars of increasing height. The background also features faint white line art of a person's legs and arms.

AP Outsourcing: The Path to Peak Performance

Finance outsourcing is exploding in the wake of the pandemic – and Accounts Payable (AP) is often the first function CFOs shift to a trusted BPO partner. But with so many possible paths, many finance leaders struggle to understand how to implement an AP migration successfully.

Even before COVID, the drumbeat had started to modernize Finance Departments by offloading transactional, low-value work. But the pandemic accelerated the pace – creating mounting pressure for CFOs to minimize costs, maximize productivity, adjust to a remote workforce, and increase their team's focus on more strategic activities.

AP outsourcing is a proven path to modernizing operations and accelerating digital transformation faster and more effectively than most companies can do on their own. Deloitte reports that 65% of successful organizations include outsourcers in their delivery model, gaining instant access to best practices, best-in-class talent, and automation tools that maximize performance while freeing internal teams to become true business partners.

Outsourcing to a quality partner resolves headaches caused by inflation, increasing wages, the growing U.S. labor shortage, high turnover, and manual processes and inefficiencies. The Aberdeen Group found that AP organizations that leverage automation and outsourcing process invoices an average 52% faster than their peers – with 88% lower costs.

But a poorly managed transition to an AP provider can have the opposite effect: creating chaos, higher costs, and damaged relationships with vendors. While Finance organizations may have “bigger fish to fry” than processing invoices and paying vendors on time, those activities are mission-critical to “keeping the lights on” and must be done well.

Follow our step-by-step guide to learn how to outsource your AP function for long-term success, including practical insights on what processes to outsource, how to identify optimization opportunities by benchmarking the performance of your current AP team, and what locations provide the most value.



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AP Outsourcing Helps Finance Leaders Mitigate Modern Challenges

At many enterprises, the AP function is ripe for improvement: dominated by manual, paper-based processes and a lack of standardization that drives high exception rates. At the same time, a lack of operational visibility makes upgrading performance a challenge, with no mechanism for tracking key metrics like volumetric data, pending or duplicate invoices, or status of vendor inquiries.

In these bottom-performing departments, late payments are all too common as invoice approvals drag for 60-90 days wasted about a quarter of their time chasing down missing or inaccurate information.

On top of these challenges, Finance & Accounting unemployment levels have also reached record lows in the U.S. – increasing wages and driving high turnover that impacts consistency and errors. More than 8 in 10 F&A managers worry about retention of key employees in the current market.

As companies look for new and effective ways to address the myriad of pain points that plague AP Departments, the Nearshore Procure-To-Pay Outsourcing market is projected to grow more than 26% over the next five years. Keeping the exponential growth of nearshoring in mind, we've laid out the 10 key steps you need to follow to implement an AP migration within your organization effectively.

AP is generally an area that is ripe for improvement but the “vicious cycle” of manual work makes it difficult to optimize...



Lack of Standardized Processes

Only 20% of AP departments have standardized their processes enterprise-wide, causing high invoice processing exception rates



Late Payments due to often Inaccurate Invoices

Up to 20% of invoices regularly contain inaccurate or incomplete data, resulting in AP staff spending 25% of their time handling supplier inquiries & chasing down missing info



Too Much Paper & Manual Processing

60% of bottom performing organizations still receive non-electronic invoices, and 42% of companies are still making payments by check



High Turnover & Increasing Wages

More than 8 in 10 F&A managers worry about employee retention in the current market, with companies spending an average of \$16k to replace an accounting clerk and over \$20k to replace a senior accountant



Lack of Operational Visibility

Most companies lack real-time visibility to volumetric data, exception rates, pending or duplicate invoices, the status of vendor inquiries, etc. to proactively improve performance and working capital

How to implement an AP migration in 10 effective steps

1

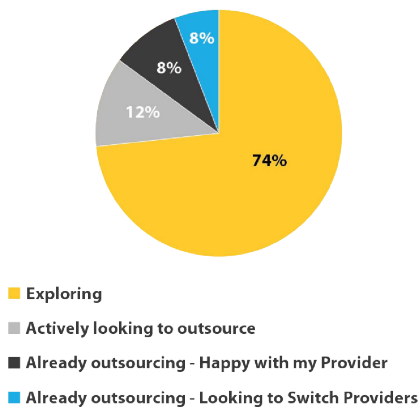
Start with a clear vision.

Too many outsourcing projects fall apart because they lack a clear vision. Identifying your biggest business drivers at the start – and aligning your leadership team and BPO provider behind them – ensures the greatest value.

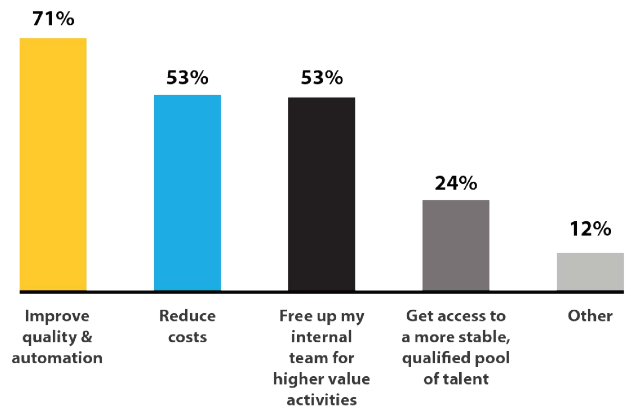


At a recent Auxis webinar, "Accounts Payable Outsourcing on the Rise: Keys to a Successful Implementation," Finance & Accounting leaders revealed their biggest reasons for considering outsourcing AP:

What best describes the stage of your AP Outsourcing journey?



What would be your main drivers for considering outsourcing your AP?



While cost reduction can be important, it's rarely the sole motivation for outsourcing AP. In fact, Deloitte reports that COVID challenges have most organizations focused on "standardization and process efficiency" as their top strategic objective in 2021.

Improving quality and automation, cutting costs, gaining access to a more stable pool of qualified talent, and freeing up internal teams for higher-value activities are common AP outsourcing drivers. But no matter your focus, clearly defining your end goal at the start is essential to measuring your outsourcer's performance and setting the right expectations for your business.

2

Use benchmarking to guide your improvement strategy.



Benchmarking your AP organization to your peers can help you identify the greatest opportunities for improvement through outsourcing. Leveraging industry benchmarks to “rate” your team’s performance paints a clear picture of the existing health and quality of your operations, enabling a strategic approach to optimizing your end-to-end process.

Most benchmarking organizations rank enterprises in some variation of Top Performer (75th percentile and above), Median Performer (50th percentile), and Bottom Performer (25th percentile and below). Understanding where you fall confirms the business case for AP outsourcing by quantifying the ROI you can expect by moving from one performance level to another.

For instance, top-performing AP teams process nearly four times the number of invoices than bottom performers, according to American Productivity & Quality Center (APQC) benchmarking data. The cost per invoice processed is also almost five times higher in a bottom-performing organization.

But while transforming a bottom-performing organization into a top performer may sound like a natural target, the significant investment that entails can make it an unrealistic short-term goal. An exceptional outsourcer can help you determine an attainable performance target based on your business drivers and ratings.

Typically, bottom performers will achieve significant improvements and ROI by initially targeting the median performance level. Then, you can assess if the expected outcomes and paybacks of achieving top-level performance in the long-term justify the costs and challenges.

Here are key benchmarking metrics every AP organization should be tracking to enable a strategic approach to optimizing your end-to-end process:

- Cost effectiveness (cost per unit)
- Staff productivity (invoices processed per FTE)
- Process efficiency (number of FTEs relative to revenue)
- Cycle time (time in calendar days from the moment an invoice is received until payment is transmitted)



3

Decide if you want a full or hybrid outsourcing model.

Back office work doesn't define what your company does best, but it forms the core competency of BPO providers. Exceptional outsourcers have the expertise, technology, and process structures in place to perform transactional work at the highest level.

Even better, the desire to strengthen customer relationships and meet contractual targets incentivizes them to constantly innovate new ways to improve performance.

Many finance leaders opt to take full advantage of the cost savings and efficiencies a BPO provider can deliver by fully outsourcing their end-to-end AP function. But outsourcing doesn't have to become an all-or-nothing endeavor, especially at the start of a journey.

Exceptional BPO partners will also customize a hybrid approach, enabling CFOs to retain ownership of processes they consider core to business operations. For instance, a CFO who wants to retain vendor master data could choose to outsource exceptions and vendor inquiries from their automated AP process.

Several key processes stand out as logical places to start an AP outsourcing journey because they operate self-sufficiently, including vendor master data setup and changes, invoice processing, and vendor inquiries.

P2P Processes That are Good Candidates to Outsource

P2P is a great entry point to outsourcing where you have the flexibility to migrate individual key activities or the entire end-to-end process:



- ✓ Vendor Master Data Setup & Changes
- ✓ Electronic invoices Receipt (Physical invoices require a lockbox / Scanning services)
- ✓ Indexing of Invoices
- ✓ G/L Expenses Coding
- ✓ Invoice Processing
- ✓ 2-Way / 3-Way Match
- ✓ Backlog & Exceptions Management
- ✓ Payment preparation
- ✓ Payment Creation
- ✓ Payment Release
- ✓ Vendor Inquiries
- ✓ Vendor Statement Reconciliation
- ✓ AP Month-End Close Support
- ✓ AP Performance Reporting

4

Determine the best location strategy: nearshore, offshore, or onshore

Labor arbitrage is a given in an AP outsourcing project. But organizations also need to look beyond the lowest cost to ensure their partner provides significant cost savings while also driving the highest productivity and performance.

Nearshoring has emerged as a leading solution for North American organizations over the last decade, with the nearshore P2P outsourcing segment alone expected to grow 2.6% over the next five years.

Executives realize that choosing an outsourcer in the same region of the world maximizes opportunities for collaboration, communication, innovation, and continuous improvement by minimizing difficulties caused by faraway time zones and cultural or language barriers.

Onshore solutions bring the highest costs and high turnover from workers who often see transactional tasks as beneath them. But many U.S. companies initially lured to the offshore locations like India and the Philippines by bottom-of-the-barrel pricing are also rethinking their strategy.

Unfortunately, Asia's low costs bring significant risk, including unforeseen cultural differences, language difficulties, alarmingly high turnover, and an abundance of "black box" operating models that provide little control or visibility.

Significant time zone differences also negatively impact communication and responsiveness. Top talent in offshore markets is rarely willing to work the overnight shifts that align with U.S. work schedules. To avoid high turnover and lower quality, North American business leaders must often settle for internal and BPO teams working opposite hours.

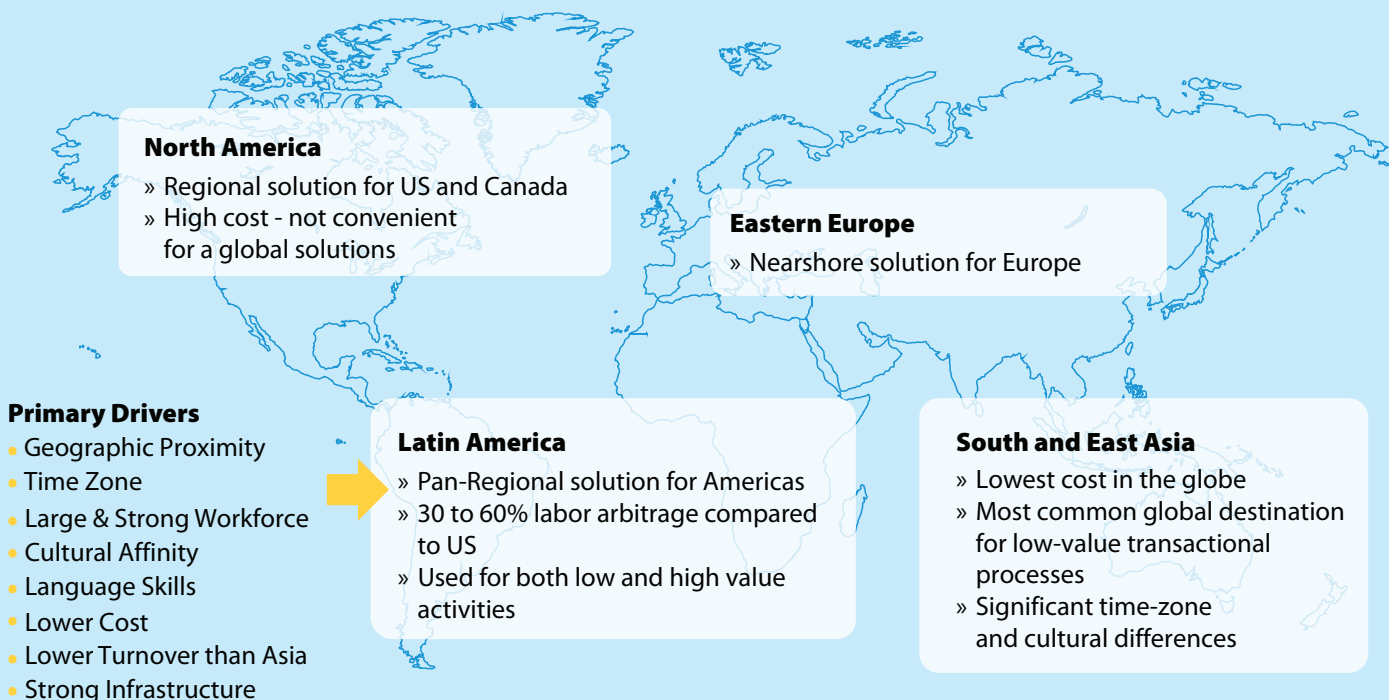
In contrast, nearshoring to Latin America enables agile, real-time collaboration with U.S. teams. Top nearshore destinations like Colombia, Costa Rica, Argentina, Mexico, and Brazil offer shared or similar time zones to the U.S., a westernized culture, direct flights from most major cities, and strong, American-flavored English fluency. Since many North American organizations have established operations in these destinations, they also boast a large talent pool that is familiar with U.S. requirements, schedules, and pace.



Nearshoring also delivers significant cost savings without sacrificing quality. For instance, Costa Rica –consistently ranked as the top nearshore destination in Latin America - provides highly skilled talent at a labor arbitrage that averages 30-50% for North American organizations.

Costa Rica also mitigates outsourcing risk with modernized infrastructure and a world-class pandemic response that earned United Nations recognition. By comparison, the pandemic spotlighted the inadequate infrastructure and poor healthcare systems that impact service delivery in offshore locations like India.

Latin America has emerged as a Key Destination for Finance Operations for the Americas...



5

Choose an AP partner who defines what's most important to you.

What to Look for When Choosing Your AP Partner:

- ✔ Proven automation capabilities
- ✔ Deep finance subject matter expertise
- ✔ Real-time analytics & performance improvement mindset
- ✔ Robust approach to process documentation
- ✔ High-caliber talent with strong recruiting & retention
- ✔ Flexible contract terms & "Spirit of the Agreement"
- ✔ Strong contractual SLAs
- ✔ Extension of your team mentality

Basic expectations are obvious, demanding proven processes that ensure invoices are paid accurately and on time.

But an exceptional partner should also have the tools and expertise to help you work smarter in a post-pandemic world. AP automation solutions like Intelligent Data Capture, Workflow, and Robotic Process Automation (RPA) are essential to optimizing operations, reducing manual efforts, and improving processing cycles across the end-to-end function.



Your outsourcer should also demonstrate deep finance subject matter expertise and a robust approach to process documentation. The best partners can readily identify challenges in the full AP lifecycle and are experts at implementing process improvements and best-in-class tools to resolve them.

Look for an outsourcer who wants to develop a long-term partnership with your organization.

Priorities should include a commitment to continuous improvement and tangible business outcomes.

An “extension of your team” mentality is important as well, prioritizing regular communication and transparency.

Exceptional outsourcers won't nickel and dime you over services that fall outside contractual definitions. Instead, look for providers who honor the “spirit of the agreement, offering the operational flexibility to ensure the service they deliver achieves desired results without additional cost.

Picking partners used to working with similarly sized organizations is another priority. Smaller enterprises with less scale require more flexibility than multinational corporations. With operations structured to handle large volumes, larger outsourcers are less willing to customize solutions.



6

Maximize workflow automation to speed processes and keep headcounts low.

From workflow automation to RPA, automating mundane, repetitive tasks is key to optimizing the end-to-end AP function: reducing manual efforts, catching signs of fraud, and decreasing the time and expense consumed by AP processes by an average of 73% and 88%, respectively.

Automation creates efficiencies that enable organizations to scale as business grows without significantly increasing headcount. It also resolves pain points that typically plague AP Departments, using automated reminders to speed approvals from busy staff or eliminating the confusion that accompanies complex approval matrixes with system rules that select the right approver based on payment thresholds, user, or type of expense.

Gartner reports that finance leaders consider 89% of accounting activities highly automatable and nearly 75% planned to use automation to tackle top priorities. But implementing AP automation is not as easy as it looks and, without a seasoned team, most enterprises struggle to achieve expected benefits.

Adding automation without optimizing the AP process, for instance, simply makes a poor process run faster. Inexperienced teams also struggle to identify and solve for process exceptions that will cause automation to constantly break.

Look for outsourcing partners with the tools and functional expertise to maximize the benefits of AP automation. Exceptional providers are also experts at helping you narrow down the overwhelming number of technology choices and implementing the best automation tools for your company.

The best partners can adapt to the software your company already uses; for instance, taking advantage of automation capabilities within your existing ERP package. They have deep experience applying RPA to Finance processes. They can also perform an assessment to recommend new tools or apply ones they have already used successfully at other businesses.



7

Establish a robust transition plan.

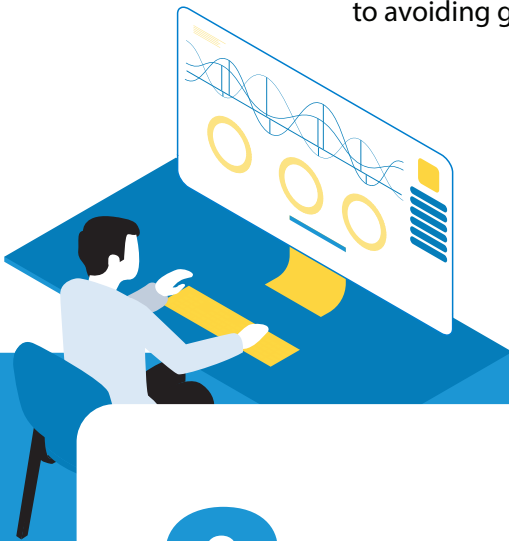


Too many outsourcers treat transition as an afterthought, but it sets the foundation for long-term success.

Properly transferring knowledge from one team to the next – and bringing documentation up-to-date – is critical to avoiding gaps in service.

Building transparency with your team and other key stakeholders that a change is taking place is also vital for success.

Challenge potential partners to detail a robust transition process that includes documentation, effective training, change management, and a structured solution for deploying automation tools. Make sure you understand how the transition will occur, how you will know it's completed, and how the outsourcer measures success.



8

Define SLAs based on what's important for your business – and make sure there's a process for tracking them.

The most effective SLAs measure an outsourcer's performance through one or two carefully chosen metrics for every function in a contract. That way, the areas you care about most are always the top priority.

The most common AP SLAs zero in on efficiency and effectiveness. How these broader categories are addressed is determined by business priorities.

For instance, an AP SLA may require the BPO provider to achieve a 98% accuracy rate when processing invoices. Another client may prioritize processing speed to avoid backlogs.

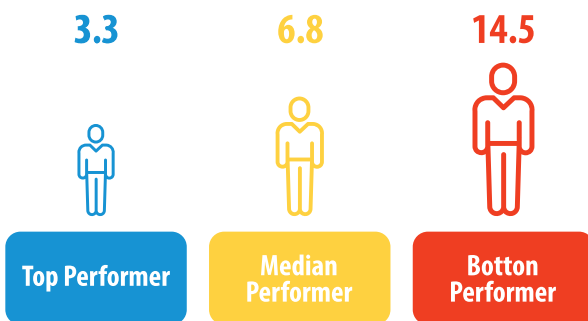


To ensure a high quality of work, exceptional providers will further track a broader scope of AP key performance indicators (KPIs) like number of invoices processed per FTE. While failing to meet

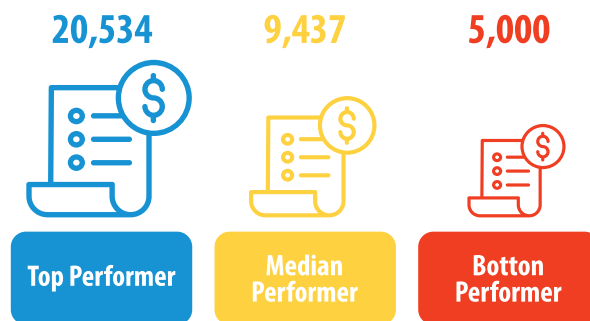
KPIs isn't a breach of contract, these measurements are navigational tools that provide insight into operations and keep outsourcers on track to meeting SLA objectives

Best Metrics to Track | Accounts Payable

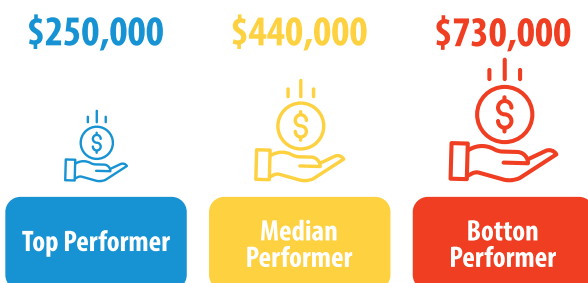
FTEs Performing AP Per \$1B Revenue



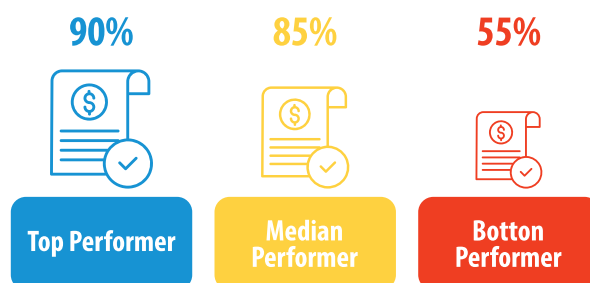
Invoices Processed Per FTE Per Year



Personnel Cost to Perform AP Per \$1B Revenue



Invoices Processed Per FTE Per Year



Source: APQC

Other Metrics Include:

- » # of Invoice Line Items Processes Per FTE
- » # of Disbursements Processes Per FTE
- » Invoice Processing Cycle time
- » Days Payable Outstanding (DPO)
- » % of Disburse ments Processed First time error free
- » % of invoice Line Items Received Electronically
- » Cost Per Invoice Processed

9

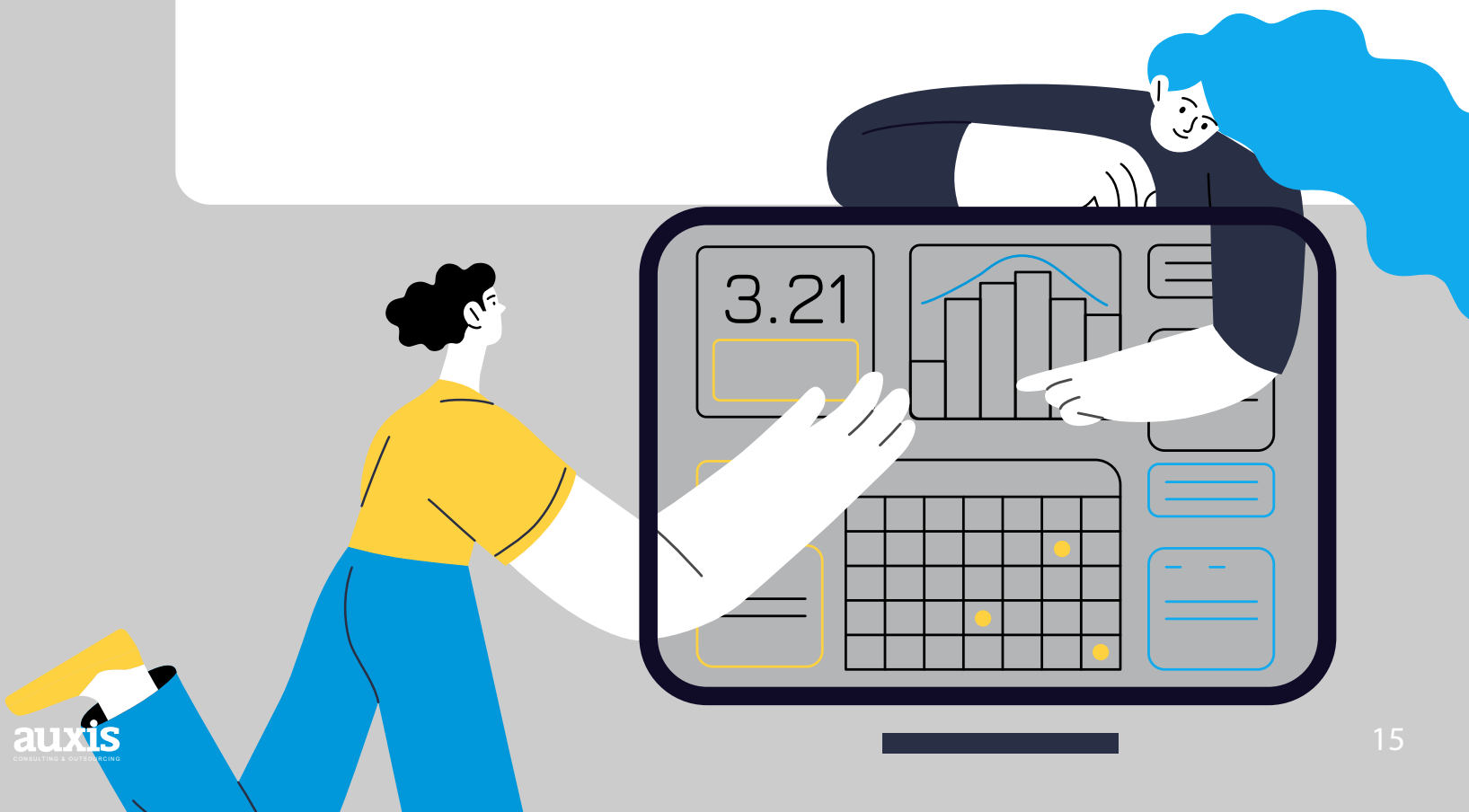
Demand a proactive approach to issue resolution.

The best AP providers use real-time analytics to evaluate team performance, regularly analyzing trends to proactively identify issues and areas of opportunity. That way, the outsourcer can flag areas that might be veering off course and get to the bottom of problems quickly.

For instance, proactive use of analytics can reveal where coaching, refresher training, resolving an in-house client issue, and even potential process revisions are needed if recurring errors are tracked.

But identifying issues is only half the battle. Challenge potential outsourcers to also maintain a structured process for fast resolution. Use of a robust ticketing system with escalation rules is essential to ensuring problems never slip through the cracks.

Vigilant use of analytics also puts issues into perspective. While the root cause may still need addressing, five improperly processed invoices become less alarming when it's clear that 20,000 others were handled correctly in the same period. On the other hand, a sudden spike in mistakes requires deeper analysis.





10

Trusting the process is the real secret to success.

When AP outsourcing fails, the concept isn't the problem. With the global F&A outsourcing market projected to reach \$51.5 billion by 2027, the concept is proven successful by thousands of businesses each year.

Picking the right partner, choosing the right location strategy, and putting the right processes and tools in place is the "secret sauce" to long-term AP outsourcing success. By looking for a solution that delivers more than labor arbitrage, organizations can also achieve productivity efficiencies and organizational restructuring that maximize savings by another 20-40%. The pandemic has made it more important than ever for finance teams to shed their traditional number-crunching role and shape insight-driven strategies that drive growth.

AP processes are essential to "keeping the lights on" but generally add little strategic value to a business. Knowing how to outsource your Accounts Payable function is a giant step toward eliminating the mundane, time-consuming tasks that distract your team from what matters most.

Nothing is perfect – and, like any new venture, there will be bumps in your journey. But if you are clear about the benefits AP outsourcing can deliver – and remain genuinely committed to making a partnership work with your vendor – together you can pave the path to success.

About Auxis

Auxis is a management consulting and nearshore outsourcing firm focused on helping organizations achieve peak performance in their back-office operations through innovative processes, technologies, and organizational structures. With 25 years of Finance Transformation experience, its unique perspective as both advisor and outsourcing operator at its Global Delivery Centers in Costa Rica and Colombia allows its AP clients to obtain real benefits and ROI from every engagement. Among its many accolades, Auxis has been recognized as a Top 100 Outsourcing Provider by IAOP for six consecutive years, achieved exclusive UiPath Gold Partner status, was named one of the 20 Most Promising AWS Solution Providers, and much more.