

## **Automating the Accounts Payable Function Saves Time, Money and Relationships**

It may seem odd, but for all companies, no matter their size, financial executives are exploring the option of automating their accounts payable function. Not too many years ago, companies began to realize the value of automating the company payroll function. Today, payroll automation is a standard practice. There is no glory in accounts payable. Awards are not given. Departments are not recognized for performance, even though A/P is a vital and extremely important back office function.

The only time accounts payable seems to appear on anyone's radar screen, is when a supplier complains about payments terms, delays or worse, refuses to ship orders due to lack of payment or late payment of invoices. Having complete control of the process and data is key. Deciding who to pay, when to pay and how to pay is the cornerstone of A/P processing. Precision control from your desktop and mobile devices should be the ultimate goal.

Many times, we have heard, "It doesn't matter, we pay our invoices in 90 days regardless. We make much more on interest, by delaying payments." This math simply does not work and delaying payments has the potential to create contentious relationships with suppliers and burdens the A/P department with needless manhours spent trying to appease suppliers and putting out fires.

Let's go through an example of how improving the Accounts Payable Function can save time, save money and improve supplier relationships:

A company purchases \$1 million dollars of steel each month from one supplier. They pay that supplier in 120 days. Imagine what would happen if they if they could get a 3% discount by paying in 15 days, they would save \$30,000 right away!

Where can you earn \$30,000 interest on \$1 million dollars in 105 days? Additionally, companies pay tax on interest income, but pay no tax for early pay discounts! Now you have reduced the cycle times for invoice processing and improved your supplier relationships.

The keys to taking advantage of early pay discounts are visibility and days to process pending invoices (DTP). The earlier an invoice appears in the A/P system the better for potentially leveraging discounts. You then can see what's due when, how much cash is needed for future payments and take advantage of early pay discounts. The goal of accounts payable should be to have all invoices into the system no more than 48 hours after receipt. By having full visibility and reducing processing time, companies can take advantage of early pay discounts and negotiate discounts that may not be currently offered by a supplier. These dollars add up quickly and go straight to the bottom line, while improving supplier relationships.

This is a win-win scenario.

Even in today's world, most accounts payable processing still functions with labor intensive tasks: including opening mail, sorting documents, manual data entry, etc. These tasks can significantly slow down the time to process and increase the likelihood of errors which increases the time and cost to process even further. By "fully" automating the A/P process, you will never touch paper again, thus allowing the A/P staff to focus on more productive tasks or move to other areas of the

company. Reducing labor costs, shrinking processing time, improving accuracy and turning A/P into a revenue generating department, rather than a cost center, is very enticing.

Bank of America estimates that the average cost to process an invoice is between \$8 and \$21 dollars. By “fully” automating the A/P process, companies should see a reduction of 50% or more in cost per invoice.

Now, what do we mean by “fully” automating? This is important. *98% of automating solutions are software companies, only.* They claim that their solution allows companies to never touch paper again. Beware! What they mean is this...Have your suppliers send all invoices electronically. Purchase our pre-packaged software (really expensive) and pay for bells and whistles you’ll never need or use. Who thinks they could get their suppliers to change the way they do business? Instead of owning the responsibility of change, they put the burden on their suppliers to change. A true “fully” A/P automation solution will never ask you to purchase/lease software or require that your suppliers change the way they do business.

Invoice Automation should only have three fees: An onboarding fee. A fee for each invoice processed. A fee for each supplier payment they process. An automation company should provide the entire A/P process from start to finish, but never touch or control money. The control to release funds should always be maintained in-house.

Let’s move to onboarding. What do we mean by onboarding? Simply, onboarding means to look at how a company currently processes invoices, identify areas or opportunities to make the process more efficient and incorporating this input into what will become a new, digitized streamlined process. Next, we begin building a new workflow. A workflow is a schematic that details each step for processing an invoice. It is a documented flow chart that eliminates redundancies and inefficiencies. This can be as simple or complex as a company requires. The workflow should map every step of invoice processing, from receipt of invoice to payment. This would also include all reports and data summaries required by the company. You should be able and require the ability to customize your entire A/P process to fit your needs and not pay for anything you might never use.

Although A/P seems to be straight forward, every company does it differently. Checks and balances are key when automating your improved workflow process. Not only should you be able to build the most efficient process possible, but also incorporate safeguards for security and anti-fraud protection. For example, establishing new suppliers demonstrates one common flaw found in many A/P departments. This should always require the approval of two separate parties. One of the most common ways to commit fraud in accounts payable is for someone to establish a fictitious supplier, create invoices, then approve payments. One person having the ability to manipulate the system can be disastrous.

Next comes ease of integration. This should be painless and simple. It should require very little involvement with the IT department and meld seamlessly with any ERP system. This is good news for the IT folks. While they need to be aware of any new business automation projects, they should also know that this will not require a great deal of work on their part. Nothing gets put on the back burner quicker than a new project for IT folks.

When you look to find a company to automate your accounts payables, also look at their level of customer service. A great number of companies become frustrated (or worse) when they cannot get issues resolved in a timely manner. The customer service function should reside within the A/P automation company and not be third party or overseas support.

Let’s look at the payment of invoices. The true cost to issue paper checks can be alarming. Bank of America estimates the cost to issue a business check is between \$4 to \$20 dollars, while the Aberdeen Group reports that the average cost of a check payment is \$7.78. V-card payments provide rebates that can save

companies a substantial amount of money. ACH payments can cost up to \$2.25 to process a payment depending on the financial institution. Automation companies should also provide these services at a substantially lower rate. They should also allow companies to maintain their local and community banking relationships in a safe and secure manner. If companies require printed checks, they should pay between \$1.00 to \$1.20 per check, depending on the volume of checks issued per month. ACH payments should cost no more than \$0.75 per payment.

Automating the A/P process has substantial benefits. Finding the right company can be hard to navigate, but here are a few key factors to look for:

- A fully customized solution built for your specific company, that requires no purchase or leasing of software.
- An automation company that intelligently captures invoice data with extremely high accuracy rates in less than 48 hours of invoice receipt.
- In-house customer service support with quick response rates.
- Simple and straight forward fee structures.
- An automation company that provides multiple supplier payment options (including rebates), without requiring a change in existing bank relationships.

When you compare your current costs to process accounts payable invoices versus the cost and benefits of automation, it becomes clear that a change to full A/P automation is one of the biggest opportunities in back office functions.

*InfoStore A/P Intelligent Capture and Payment Automation*

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