Why Automate PAYABLES and RECEIVABLES?

BY SUZANNE HURT

ELECTRONIC PAYMENTS ARE MORE ACCURATE AND LESS COSTLY.

Internet-based financial resource management (FRM) software will automate day-to-day invoicing, payments, and reporting—all the processes corporations and banks use to manage their financial transactions and cash. Yet these processes remain manual at most companies. Eighty-six percent of today's 78 billion annual enterprise payment transactions are still paper based, according to the National Automated Clearing House Association (NACHA). Disputes over billing are lingering, bills are going unpaid, checks are still "in the mail." Accounts receivable departments are chasing money they should have collected months earlier. Accounts payable people are awash in paper. Treasury departments waste energy on mundane reports, phone calls, and paper processes.

ILLUSTRATION: LISA MANNING/ARTVILLE

When will electronic payment catch on? Gartner Inc. predicts that about 11 billion business invoices will pass between companies this year. With about four invoices for every payment, that's approximately four billion payments annually, with roughly 15% handled electronically, up from 12% in 2000. By 2004, 40% of business-to-business payments are expected to be made electronically.

Managing financial resources this way can change the outlook of one department as well as the bottom line of an entire company by getting money into the bank and putting it to work faster. Right now, U.S. companies spend more than $180 billion a year processing paper-based invoices, according to a Gartner study. When a company goes electronic, the cost per invoice drops to $2.50 from $5, and transaction time drops to one day from more than 40. That can mean millions of dollars in savings for retailers, service providers, or other bill-intensive organizations.

FRM software gives customers the opportunity to save money, too, by allowing them to qualify for discounts and pay more efficiently.

DISCOUNTED PAYABLES

GE has long been adamant about "electronifying" its payments. A Gartner case study about GE (Gartner CS-13-4085, May 2001) reported that 70% of calls to GE's accounts payable department were from internal managers asking about the status of a vendor payment, with another 20% from vendors asking the same questions. Moreover, the company's staff spent over 50% of their time matching invoices to purchase orders and shipping receipts. GE financial managers knew there could be significant cost savings by replacing paper checks with electronic payments. Cash discounts from vendors for paying quickly would alone produce an estimated $2 billion a year.

Although GE had an EDI (electronic data interchange) relationship with some of their larger vendors, they knew they couldn't ask their mid-sized and small vendors to support an expensive EDI model. So they implemented a Web-based electronic invoice presentment (EIP) system, telling their suppliers that GE would pay in 15 days in return for a 1.5% discount if invoices were presented online using GE's EIP system. Invoices presented as paper would be paid in 60 days. Within a six-month period, more than 15,000 of GE's vendors, who represented 45% of the company's vendors, signed up for electronic presentment. During this same period, the company reduced its cost of payables processing by 12%.

Likewise, financial services companies use FRM tools to reduce their legal expenses by earning "fast payment" discounts. Legal e-billing systems cut invoice processing time by up to two-thirds, which means most companies can turn around a payment in as few as 10 days. The financial services companies earn the discount, while the law firms have fewer outstanding receivables and better cash flow. Legal e-billing also automates routine tasks, such as reviewing invoices for anomalies and mistakes. Companies can set thresholds in their legal e-billing systems to automatically catch errors—such as wildly high line items or mistakes in pay periods—that once forced payment administrators to pore over paper bills for hours. Now those payment administrators can do more strategic trending and analysis work based on the electronic data in the legal e-billing system. Trending and analysis can help companies determine which law firms are following payment guidelines and procedures and whether those guidelines and procedures need revision.

Managing legal bills electronically has been especially beneficial to large insurance organizations. For example, a large property and casualty insurance company spent hundreds of millions of dollars annually on legal services from about 1,000 outside law firms—at least one for every U.S. state, plus localities overseas, plus highly specialized attorneys. Each relationship carried its own set of contractual requirements, which made it necessary for the insurer to perform expensive legal resource review and approve each legal invoice. Because the process was paper based, there was no way to capture trending information to determine which outside firms provided the best value or whether litigation was the most economical response to a situation. As a payer, they turned to electronic legal bill presentment. The system filters invoices according to contractual specifics, validating and verifying charges before their legal professionals approve invoices. With prompt-payment guarantees, over 70% of the insurer's outside law firms participate, providing the company's legal personnel with a 30% productivity gain. Further, they're able to do trending analysis of legal activities that provides valuable analytics for making future decisions.

TREASURY MANAGEMENT SYSTEM

Of course, billing and paying bills electronically eliminates paper invoices and checks, the time spent handling them, and the tangible and intangible clutter that costs a company money and creative energy. Behind the scenes, disparate internal and external systems are linked to make electronic transactions possible, bringing all the information they hold together into a single pane for up-to-the-minute viewing.

Automating and managing financial transactions and resources online means a company always has a clear, real-time picture of its cash. It can put money into the bank quicker and enjoy timely, accurate information and clear visibility needed to put that cash directly to work. With a good picture of its cash on hand, it can increase its working capital and channel it quickly into investments, interest earned, or reduced borrowing.

For example, a global communications and entertainment company with labor-intensive, manual processes for managing balance positions across more than 100 accounts determined that they couldn't afford to continue increasing personnel to meet their growing treasury needs. This resulted in underutilizing funds with more short-term borrowing. In addition, reconciling and disseminating the information across the organization in a timely manner was expensive and a drain on resources.

The company decided to deploy an Internet-based treasury management system with consolidated balance and transaction reporting as a shared services center to eliminate redundancies while providing global access. As a result, they were able to improve their fiduciary control, reduce their bank fees, gain more efficient access to their funds, and distribute data across the organization more efficiently. The system allowed them to improve the turnaround time on bank account reconciliation as well as identify and resolve exceptions faster. They also reduced their overnight unutilized funds and, thereby, their short-term borrowing by almost 50%. They were able to improve their cash management practices through automated wire entry, approval routing, and confirmation.

Further, this global company reduced risk and error because it didn't have to rekey data. Eliminating manual data entry and reducing costly errors helps resolve billing disputes more quickly. Gartner estimates the cost of resolving business-to-business invoice disputes is cut in half from \$20 to \$10 each when the dispute is resolved electronically. Thus, FRM technology helps a company foster customer goodwill *and* save money.

NET POSITIVE

Despite the business advantages of having a better handle on its money, a company considering moving its paper processes online may be overwhelmed by the sheer scope of such an initiative. It's hard to leave the time-honored and well-trusted addiction to seeing transactions occur by exchanging physical pieces of paper. But on second glance, managing its financial resources electronically creates so many profitable benefits for an organization that all the objections begin to look silly.

Bringing a company full circle with its financial information, FRM closes the loop for disjointed financial systems by streamlining invoice, payment, and treasury processing and by giving companies a clear picture of their cash balances at all times. FRM's Web-based software facilitates financial reporting and payment requests between internal departments and employees without time delay. Eliminating the time and resources required to roll up disparate data sources ensures that all decision makers have the same picture of the company's finances at a given time and easy, immediate access to facts and figures necessary to make informed choices to maintain the company's financial health and increase its wealth.

THE MOST DIFFICULT CHALLENGE OF SHIFTING TO ELECTRONIC FINANCIAL RESOURCE MANAGEMENT IS CHANGING THE BEHAVIOR OF HUMANS WHO ARE USED TO PAPER TRANSACTIONS.

With the comprehensive financial resource management software available today, technology isn't the highest hurdle. The most difficult challenge is changing the behavior of the humans who have always made and trusted paper transactions. For businesses, the lure is strong, but the hurdle to adoption is institutional. Organizations must step back and look at themselves holistically. It's difficult to make sweeping changes in large organizations, often because of cultural constraints. Yet the benefits derived from leveraging the Internet to improve financial business practices far outweigh the difficulties of change. The more agile an organization becomes, the more successful it will be in meeting ever-changing market challenges. When a company weighs the benefits of knowing at every moment exactly how much money it has and where, effecting this behavioral sea change becomes worthwhile.

FRM pays the bills and collects the money faster. For companies that successfully make the leap, the checks are in the bank, not in the mail. ■

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