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Invoice Automation: The Accounts Payable Advantage?

During recent years, many contractors have introduced various elements of automation into their A/P departments. Yet, by most accounts, A/P processes continue to be plagued by inefficiencies.

Despite ongoing advancements in automation software, most contractors have chosen to spend IT dollars on other initiatives, such as enterprise information systems (EIS), customer relationship management (CRM) programs, project management technologies, and collaboration tools. To the dismay of many CFMs, plans to transform A/P processes have languished as a result of losing the IT priorities' battle.

Viewing A/P automation (or invoice automation) as a second tier priority, belies the significant business benefits that a contractor can realize. A/P automation, which encompasses everything from invoice receipt and processing through approvals and payment, is no longer just another departmental improvement initiative.

In the construction industry, where estimates indicate that as many as 40-50% of projects operate behind schedule,¹ the potential benefits of streamlining A/P processes stretch far beyond cost reduction and into core financial and operational functions. Before discussing how to create a more efficient A/P process, however, it's important to review a dilemma common in many A/P departments.

The A/P Dilemma

Larger A/P departments often break down duties by type (handling incoming invoices, routing documents to different departments, etc.) or organize them by supplier. In a smaller A/P department, these same duties may be less defined, leaving the entire staff to do a little bit of everything. In either case, the downsides remain the same:

- Error-prone data entry;
- Numerous business rules to govern exceptions;
- Siloed IT infrastructure that creates more documents in order to secure approval or address exceptions;

- Approvals required from multiple people, who are often at different locations; and
- Lack of access to "approvers" which creates bottlenecks that constrict cash flow, damage supplier relationships, and reflect negatively on the company.

In many instances, the operational processes and workflow of A/P departments haven't benefited from current technologies. Rather than an efficient, centralized system, many invoice management processes are segmented. This provides little visibility into the status of an invoice as it moves from receipt through approval and payment. In a work environment without automation, it's difficult to:

- Easily pinpoint the location and status of the invoice,
- Track cash flow,
- Compile accurate cost-to-complete forecasts, and
- Provide the supplier or sub with an estimated approval date on the invoice.

According to a 2006 survey by the Aberdeen Group, the average processing time for an invoice is 27.6 days. However, the most efficient companies have reduced this timeframe to an average of 7 days.²

A/P automation can reduce the cost of processing an invoice, minimize error rates, and help control spending. At the same time, these new efficiencies can improve cash flow by reducing delays and discrepancies so contractors can take advantage of payment discounts more often.

Delays & Discrepancies

Every CFM knows what happens when an invoice does not reconcile with the goods or services received. Someone must contact the vendor to resolve the discrepancy, generating a payment delay and possibly a dispute.

According to PayStream Advisors, more than a third of A/P managers reported that discrepancy resolution had a significant negative impact on their A/P processes.³ From a contractor's perspective, discrepancies inevitably lead to phone calls,



e-mails, and faxes that significantly stress internal resources and business relationships. And, regardless of how delays are created, they hamper the contractor's ability to capture prompt payment discounts, which decreases cash flow and increases expenses.

With more efficient and effective A/P processes, contractors can reduce the number of internal resources required to tackle discrepancies, and help maintain positive relationships with subs and suppliers.

Web-Based Invoice Automation

Investing in Web-based invoice automation systems and outsourced services that integrate seamlessly with enterprise resource planning (ERP) systems can increase operational efficiencies, contain costs, and support financial compliance requirements.

The modular nature of some Web-based platforms has opened the door for companies seeking greater flexibility and scalability out of their IT investments. Whether an A/P department is large, small, or somewhere in the middle, modular software components can provide the opportunity to

grow into a solution, rather than be constrained by its limitations down the road. For example, with a modular platform, A/P departments could quickly and easily add capabilities to:

- Incorporate contract and purchase requisition management into their A/P automation initiative;
- Establish a supplier/sub portal through which data relevant to invoice status can be obtained; and
- Extend automation of invoice receipt and approval to payments processes, completing the Purchase-to-Pay cycle.

With the emergence of government-mandated regulations such as Sarbanes-Oxley and the Patriot Act, the ability to monitor payments to detect improprieties has also increased in importance.

Even those companies that aren't required by law to abide by Sarbanes-Oxley are expected by customers or financial partners to abide by the law's transparency rules. The creation of an electronic audit trail can provide valuable information in a company's efforts to settle payment disputes and counter legal claims by third parties.

How A/P Automation Works

In its simplest form, A/P automation has three steps:

- 1) Capture:** When a paper invoice is received, it's scanned and converted into an electronic file using in-house document imaging software or an outsourced service. This service may also receive invoices electronically as faxes, e-mails, etc.
- 2) Process:** Once converted, the electronic invoice enters the contractor's workflow solution, which matches, codes, and routes the invoice to the appropriate staff members for review and approval. Once approved, electronic invoices are fed into the ERP or accounting system; unapproved ones are returned to the supplier. Both approved and unapproved electronic invoices are archived.
- 3) Pay:** Once an invoice is approved, the ERP or accounting system prompts the payment application to disburse funds. Sophisticated or full-featured A/P automation systems support payment through check, wire transfer, and standard forms of electronic payment, including positive pay.

With all of this talk about automation, it can be easy to view business in purely electronic terms, with paper no longer playing a major role. While that may indeed be the long-term result of widespread process automation, the A/P environment of

Lessons Learned from the Legal Industry

Despite the potential benefits, some construction companies have balked at Web-based invoice processing due to the perceived uniqueness of their business and operational procedures.

Yet, other complex industries with similar concerns have found invoice automation to be of significant value to their organizations.

For example, in the corporate legal world, in-house general counsel often employ outside law firms to assist with litigation. These relationships with outside counsel generate a tremendous number of invoices for legal services.

Without the benefit of Web-based invoice automation, general counsel and administrative staff are forced to process each invoice manually, which impedes their ability to utilize resources efficiently, manage legal spending proactively, maintain vigilance over agreed-upon case budgets, and quantify the performance of their outside law firms.

the foreseeable future will continue to consist of both paper and electronic invoices. In fact, research published by Aberdeen Group indicated that approximately 83% of domestic bills are received in a paper format.⁴

So, A/P automation must be able to handle incoming invoices in any way, shape, or form. But what else? How does a CFM research, choose, and implement the right solution?

The Importance of Due Diligence

Before you choose an invoice automation product or service provider, conduct internal due diligence as you evaluate the features and functionality of prospective solutions. Given the variables within a contractor's A/P or finance department, haphazard automation will likely create more difficulties than efficiencies. With that in mind, carefully consider the following questions:

- 1) What are the internal invoice processing goals for the company?
- 2) Is the company prepared to adopt a solution that encompasses process automation from invoice receipt through payment? If not, what other options are available?
- 3) How complex are the company's internal processes?
- 4) Do subs and suppliers have the capacity to submit electronic invoices or must document imaging solutions for paper invoice receipt be part of the mix?
- 5) What are the technology options? Should the company build a customized system or buy a standard product? Is it better to purchase a licensed product or pay for hosted services? What benefits the company most – a modular platform or point solution?

By asking these types of questions and weighing these factors, you should be able to accurately assess the scope of a successful A/P automation initiative and begin to find suitable products and solution providers.

Identifying the Right Solution

As the process of identifying the right solution gets underway, it's important to determine the overall corporate objectives for A/P automation. Not only will this affect technology selection, but it will also help determine your approach to the selection process. For example, if cost reduction is the company's first priority, you need to accurately assess all potential expenditures associated with the new solution. Budgets change with

each new hardware or software purchase – and a solution that costs more than the expected savings is ultimately not much of a solution.

While hardware costs are easily quantified, other costs such as downtime, training, and end-user support, can add new and unplanned expenses to the project. Also, carefully review the total cost of ownership (TCO) or return on investment (ROI) models with potential providers.

The solution must fit your company's internal processes, so increase or decrease the solution's scope as needed. For example, as part of your due diligence, you may learn that your company isn't quite ready for an end-to-end initiative.

Perhaps what's needed most is a way to manage paper invoices. If so, you can pursue varying degrees of A/P automation by partnering with an outsourced services provider or leveraging in-house document capture solutions. These small steps will help your company leverage efficiencies quickly, and will serve as an on-ramp to more sophisticated automation.

With an outsourced services provider, your company can quickly ease the burden of paper and manual processes. In typical cases, companies engaged with an outsourced services provider no longer receive physical invoices from vendors, yet they maintain complete control of the A/P function.

In addition, you can choose a modular approach to invoice management that begins with document imaging technologies. (For more information on document imaging, see "There Goes the Paper Trail: A Project-Based Approach to Document Imaging" by John Safin in the January/February 2005 issue.)

These solutions, which convert a paper invoice into an electronic file, establish a convenient workflow for invoice review and approval. Although the scope of this approach is narrower and requires on-staff expertise and regular software maintenance, it can be a step toward reducing costs, improving cash flow, and strengthening relationships with subs and suppliers.

Implementation Best Practices

Proper implementation is as important as identifying the right solution, whether the solution is deployed internally or hosted by a third-party. Failing to implement or deploy a solution successfully can rattle the confidence of internal and external stakeholders such as employees, partners, subs, and vendors. To provide a smooth transition to invoice



automation, CFMs should put the user first, ensure success, and limit complexity.

Put the User First

If subs and vendors choose not to submit electronic invoices, it will be necessary to transform paper invoices into electronic data. Because fewer disputes is a primary benefit of invoice automation, be prepared to accommodate those who choose not to adopt the technology.

Ensure Success

Establish realistic strategies and metrics. Your primary subs and vendors are the most likely candidates for early adoption of an automated A/P system. Once these companies are on board, it's easier to extend adoption to broader constituencies.

Limit Complexity

Simple solutions compliment your other two goals to put the user first and ensure success, so limit the complexity of A/P automation initiatives. Successful initiatives require little or no change to key users, but continue to provide your company with all the desired benefits.

Conclusion

Process automation, in general, has become a key component of business strategy. And, many contractors are beginning to understand that automated A/P processes offer enormous potential to increase cash flow and realize greater operational efficiencies.

But, remember: operational efficiencies are more desirable if your solution reduces overhead, improves visibility into spending, limits delays and discrepancies, and helps capture cost discounts. So, while it is easy to be impressed by A/P automation, due diligence must take precedence when selecting your solution. **BP**

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Endnotes:

1. *FMI/CMAA Sixth Annual Survey of Owners*, FMI Corporation and the Construction Management Association of America, Fall 2005.
2. *The Invoice Reconciliation and Payment Benchmark Report*, Aberdeen Group, June 2006.
3. *Web Invoicing & Electronic Payments: Moving Beyond Paper*, PayStream Advisors, Summer 2005.
4. *The Invoice Reconciliation and Payment Benchmark Report*, Aberdeen Group, June 2006.



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