Going Paperless

By **Randy Myers**, June 15, 2010

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You wouldn't think of tracking your company's finances on a paper ledger. You'd laugh your banker out of your office if he suggested sending monthly statements in the mail. Yet you barely blink as hundreds, maybe even thousands of paper invoices pour into your accounts payable department each month and a like number of paper checks go out to vendors.

While vast segments of the finance function have gone electronic, accounts payable remains one the last bastions of what supply-chain expert Andrew Bartolini calls "the paper tsunami."

Almost 70 percent of all payments made today are made on paper, says Bartolini, head of global supply management research for Aberdeen Group, a Boston technology researcher. "It lags most other functional areas in terms of automation."

The consequences are significant. According to Bartolini, clinging to paper, inflates invoice processing costs, ups payment errors and increases the chances of payment fraud. When companies' antiquated processes aren't sufficiently nimble, they also may miss opportunities to take early payment discounts, even miss payment deadlines completely, incurring unnecessary late fees. All this ties up cash in working capital when it could be put to better use growing the business.

"On transactional costs alone, companies could save 30 to 50 percent simply by converting from manual to electronic processes," Bartolini says. "It's an extraordinarily large opportunity."

IOMA, the Institute of Management & Administration, concurs. In a 2010 report on accounts payable department benchmarks, the Newark, New Jersey, business management researcher found the average company with minimal AP automation spends $11.62 processing an invoice for a purchase order, while more automated companies spend just $6.99

Overcoming the hurdles

If your company is among those that haven't seized this savings opportunity, it might be because there are legitimate hurdles. Tossing out paper requires cooperation not just from your finance team, but also from operational colleagues, and, ultimately and most importantly, vendors, since an all-in system requires them to submit invoices electronically. But your business may represent just a small fraction of your vendors' total revenues, and the larger they are, the greater the likelihood they'll try to force you to follow their protocols rather than the other way around.

One solution: go paperless gradually. Jonathan Casher, president of consulting firm Casher Associates and an IOMA senior consultant, suggests starting by scanning invoices into electronic format and manually indexing them to save storage and retrieval costs. As a next step, use optical character recognition (OCR) software to capture data from invoices and enter it into your accounting software. Early iterations of that software required lots of manual intervention, but versions introduced over the past four or five years work much better, Casher says.

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Andrew Bartolini, global supply management analyst, Aberdeen Group

Once you've captured invoice data electronically, establish electronic workflow procedures to route invoices to the proper personnel for approval, and give managers real-time access to the status of individual invoices. Ultimately, you might opt to give vendors tools to electronically submit invoices, get status reports, resolve disputes, and get paid via that same system.

Independent of any of these actions, you also could issue corporate cards to employees who incur travel and entertainment expenses. That way, you may be able to reduce hundreds or thousands of small invoices each month into just one from your card issuer. Aberdeen Group estimates using corporate cards can reduce the cost of a single procure-to-pay transaction by nearly 60 percent.

A real estate company takes it one step at a time

One company making the switch to paperless accounts payables in Encore Enterprises Inc., a Dallas company that builds and manages retail, hotel and multi-family properties that had annual revenue of $85 million in 2009. The goal, says Encore CFO and COO Mahesh Shetty, was to save money by driving down AP transaction costs and enabling smarter procurement practices. Shetty also wanted to establish better internal controls to prevent payments for phantom services and other types of payment fraud, which Encore's previous controls couldn't catch.

Much as Casher recommends, Encore undertook its AP automation upgrade in stages. Beginning in 2005, the company started scanning invoices into electronic form. Next, it created an in-house review process that moved responsibility for paying invoices from operating managers acting on their own authority and to at least three people — an operations-level manager, regional manager and corporate vice president. Funds were dispersed from corporate headquarters, too.

Once Encore had a better handle on what it was purchasing and from whom, the company leveraged its buying power by consolidating purchasing within a smaller group of vendors. The company also adopted a single accounting system for all its operating groups. "This gave us one lexicon throughout the organization in terms of how we talk to one another," says Shetty, who also chairs a small- and medium-sized business subcommittee of the Committee of Financial Executives International, an association for finance executives. "A property manager at one of our hotels uses the same account code for office supplies as a property manager at one of our multi-family apartment units or at our construction subsidiary."

Even after implementing the changes, Encore was still paying invoices with paper checks, which was expensive. To economize, the company outsourced that activity to its bank, paying about $1.30 a check for the service. To pare costs even further, it asked vendors to enroll in the Automated Clearing House network. That allowed Encore's bank to deposit payments directly into a vendor's bank account instead of cutting a paper check, for a fee of just 25 cents per transaction.

So far, Encore has convinced only a portion of its vendors to sign up for ACH, and about 40 percent of its invoices are being paid through that system.

However, the overall savings from its paperless AP initiative have been impressive. Beyond cutting transaction costs, the company also reduced:

- Accounts payable staff, to two from seven.
- Overall working capital levels, since it can now time payments to the date they are due, eliminating unnecessarily early payments.
- Bank fees by about $25,000 annually. Encore earns a credit from its bank based on the float it carries with that institution, and that float has increased with the new AP protocols.
- Late payments to vendors, minimizing late fees and bolstering the company's credit score.

Automating accounts payables doesn't happen overnight. Five years into the process, Shetty says Encore is still refining its effort, and working to bring more vendors into the ACH network. But he's pleased with the results thus far.

"For many midmarket companies," adds Bartolini, "there's a straightforward business case that can be made for AP automation based on how much paper they can move out of the system."

Maybe it's time for more companies — even yours — to give it a try.