From Myth to Reality:

Bringing the Benefits of Payments Integration and Automation to Your Company

Treasury Strategies

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From Myth to Reality

Introduction

Despite the generally acknowledged pain points of manual and disparate payment processes, companies today remain convinced that they cannot realize the benefits of payments integration and automation. This is especially true for midsized companies and those with internally developed accounting platforms. Many believe that the ability to integrate and automate the accounts payable, accounts receivable, and reconciliation processes is only possible for larger companies or those with "mainstream" accounting platforms.

With recent advancements in implementation technology and the increasingly consultative role of banking partners, this is simply not true. The ability to centralize the receipt and transmission of all payment-related information (integration) is not restricted to companies with the largest ERP systems. A company also does not need to be large and flush with IT resources to minimize manual intervention in payment processes (automation).

What a company does need is a strong business case, internal collaboration, and a consultative banking partner (or solution partner). With these in hand, automation and integration solutions are feasible for companies of all sizes and all types of system configurations. Another critical success factor requires companies to enforce the fundamental cultural and procedural shifts that must occur with payments integration and automation—companies cannot simply replicate inefficient processes in electronic formats.

In this paper, we define payments integration and automation, and we discuss their benefits versus manual processing. We also debunk many of the myths that act as impediments to consideration or implementation of these solutions. Finally, we provide detailed guidelines on how to build the business case for payments integration and automation.

Understanding the Benefits

The benefits of payments automation are numerous and can dramatically improve corporate cash flows. They include:

- Cost savings, including lower all-in transaction costs, from a reduction in manual processes and errors
- Improved ability to take advantage of early payment discounts on payables
- Accelerated cash flows on receivables
- Better controls and visibility of cash flows
- Reduced fraud risks from paper-based payments
- Improved working capital metrics, such as minimized Days Sales Outstanding (DSO) and extended Days Payable Outstanding (DPO)
- Enhanced relationships with key trading partners and customers
- Optimization of ERP capabilities and other financial systems

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Automating payables and receivables processes allows companies to reallocate resources to focus more on strategic and value-added initiatives. This is especially important given our recent research finding that treasury staffs are simultaneously shrinking in number and taking on more responsibilities.

The costs and risks of maintaining a manual payment system are many. They include:

- **Labor costs:** Manual payment systems necessitate additional data-entry work involving intensive paper handling and manual keying and rekeying of data. We know that treasury, accounts payable, and accounts receivable groups tend to be short-staffed. With manual payment systems, they are forced to focus on individual transactions and not on more important strategic issues.

  Recent corporate research undertaken by Treasury Strategies indicates that treasury staffing levels remain lean. This is despite treasury departments being tasked with additional responsibilities across a range of operational, analytical, and strategic initiatives. Staffing will continue to be a challenge for companies if they do not address labor-intensive manual payment processes.

- **Processing costs:** The existence of manual payment processes creates numerous tasks and control requirements. This creates high costs in both labor and maintenance. By definition, manual payables and receivables processes have multiple touch points. This results in additional processing costs in order to execute and maintain these processes. Control issues and requirements related to manual procedures also increase per-item processing costs.

  A common result of manual processes that we have observed in our corporate engagements is the existence of additional systems to support the accounts payable or receivables processes outside of a company's core accounting or ERP system. The associated hardware, software, and support costs of these systems result in higher per-item-processed costs in each process.

These systems range from smaller in-house applications to robust accounts payable or accounts receivable platforms provided by third parties. As companies move to automate A/P and A/R processes and push toward straight-through processing, or STP, these systems become less necessary.

As we mentioned in the previous item about labor costs, manual processes involve inefficient paper handling and data keying. Both of these issues require costly controls that are not necessary in an automated environment. Large amounts of paper, for instance, necessitate additional processes for storage and destruction of documents in order to control the exposure of sensitive information. Data keying is another large driver of control-related processing costs, including attempts to reduce human error. It's a Catch-22: inefficient processes engender other inefficient processes to control the original workflow.

- **Cash and liquidity management costs:** Companies struggle to produce a consolidated cash position due to the varying approval processes related to each payment type. Often this involves dedicated staff and applications. Again, the additional or dedicated resources required to calculate daily cash positions drive up costs related to daily cash management.

  The timing of when a cash position is finally ready is crucial to both the timing and the accuracy of a treasurer's daily liquidity decision making. The earlier in the day a treasurer can enter investment markets with idle cash, the higher the returns will be. With cumbersome and error-prone manual processes, cash positioning is difficult and less accurate for corporate treasuries. Most are forced to leave balances idle that otherwise could have been invested. In extreme cases, error-laden processes can lead to high overdraft costs and strained vendor relationships from missed or NSF payments.

- **Reconciliation costs:** Manual processes increase reconciliation-related costs in two key ways. The first involves the costs related to the resources expended to obtain bank balance and transaction files, translating them into applicable formats for the company's reconciliation systems (or to a form readable to a human), and any manual matching that may be necessary depending on the specific process. The other related cost is linked to manual receivables or payables processes. If manual processes in either group lead to a high error rate, there is a correspondingly higher volume of items to push through the reconciliation process.

Inefficient processes engender other inefficient processes to control the original workflow.

- **Compliance costs:** In recent years, companies have faced increased scrutiny from auditors and regulators. The lack of visibility and control resulting from paper-intensive processes translates to ballooning costs for maintaining additional manual requirements from internal auditors and regulators. Automated systems provide easier access to information required for compliance purposes, thus pushing down costs related to compliance.

- **Decreased ROI on systems investment:** The existence of many manual processes in payment systems means that there is a greater likelihood that a company is failing to maximize its investment in an ERP or accounting system. With the retention of manual payments, companies are likely accessing separate bank portals for payment and reporting functionality that are already "paid for" in their systems of record.

There are many touch points in a manual payment system, which increase the scope of fraud and security risk.

- **Security and fraud risk:** There are many touch points in a manual payment system, which increase the scope of fraud and security risk. Paper check stock, in particular, requires appropriate controls and measures that are difficult to monitor. More effort is required to manage approval processes for manual payments. The result is that the potential for security breaches and fraud losses is much higher.

- **Negative impact on trading partner relationships:** For both payables and receivables, inefficient or error-prone processes can negatively impact trading-partner relationships. On the receivables side, the delay or failure to post a customer payment can lead to an improper service shutoff or cancellation of a shipment. For payables, manual processes can lead to delayed payment, missed payments, and hard-to-read remittance information.

Despite a lengthy list of costs and risks associated with manual processes, many companies continue to perceive that the barriers to integration and automation justify their as-is state.

Solution Part 1:
Defining Payments Integration and Automation

Given the problems with a manual system, what does the solution look like? In this section we will define what we mean by integration and automation and present best practices.

Beginning on the payables side, full payment integration is the consolidation of all payment information into a central place. Once the information is consolidated and processed, payment instructions across all payment types are then sent to the bank from a single point in single or multiple files. Once the bank receives the payment instructions, it parses up the file (or files) by payment type and executes the payments. The file may also contain remittance information that can be sent separately (e.g., via e-mail) to facilitate posting by the supplier.

The first step toward payables integration is usually establishing a Shared Service Center (SSC), which would serve as the single point where all invoices are collected and brought into the company's ERP or core accounting system. Automation refers to the process of taking that information, processing it, and sending payment instructions to the company's disbursement bank.

The goal of automating payables is to require minimal manual intervention between the collection of an invoice and the execution of the payment by the bank. Depending on the volume of payments and a company's resources, specific FTE or entire groups can be devoted to a single step in the payables process in a manual environment.

Integration and automation for the receivables process is the mirror image of the payables process. Integration of receivables is the receipt, at a single point of information, of all incoming payment types, including lockbox, ACH, wires, payments made through online bill payment sites, merchant card payments, and remote deposit transactions. Receivables integration also refers to processing this information in a single process to load into a company's ERP and match it to open invoices or customer accounts.

Full receivables automation occurs when a company can receive payment information from its collection bank or banks and apply the cash accordingly with no manual intervention. However, due to the nature of the cash application process, some level of manual intervention will always be needed to work out exceptions.

Finally, an automated payment system may include automated account reconciliation. This happens when intraday and previous-day account information (including balance, activity summaries, and individual transactions) are transmitted directly into appropriate internal systems. After these files are loaded, the system's reconciliation functionality can be used to reconcile open payments and receipts automatically. Once that part of the process is automated, accounting staff is freed up to focus solely on exceptions, as opposed to all payments.

Solution Part 2:
Debunking the Myths of Payments Integration and Automation

Given all of the costs and risks associated with manual payment systems, it's surprising that more companies are not moving to an automated payment system. This is largely due to widespread misconceptions that act as barriers to adopting this best practice. Here we quote some of these perceived barriers that we have observed in our corporate engagements:

Myth No. 1

"Integration/automation is a solution for big companies only. I don't have the extensive IT resources and funds needed to do this."

Some banks now offer integration options that can significantly reduce implementation time and costs. Working with a knowledgeable partner is a key to success in developing an automation solution for your company. By leveraging standard outputs from systems and working with a consultative banking partner to integrate those outputs with that bank's services, companies can minimize their reliance on internal or external IT resources.

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Myth No. 2

"It's not worth the time/effort/disruption to my business to do this right now."

It is better to be proactive now rather than reactive later. There are real dollar costs to delaying an automation decision, which extend beyond the short-term costs of time, effort, and disruption in moving to an automated solution.

First, manual payment operations are not scalable as a business grows over time. This means that as payment volumes increase, costs will rise disproportionately.

In addition, with a manual payment system, visibility into processes becomes more challenging with growth. More paper in the system results in less transparency and an extra cost to the business.

Secondly, it is worth highlighting that the companies that have fared the worst in economic downturns are those with ineffective processes, structures, and technology. Most finance executives now recognize that in a difficult economic climate, they need the best technology available. Up-to-date technology ensures that routine processes happen efficiently, automatically (when possible), and securely.

Economic turmoil heightens awareness of a need to fend off disruptions and maintain control. This means upgrading systems, providing greater visibility into cash and investment holdings, achieving more extensive straight-through processing, and embedding security features in automated routines.

Myth No. 3

"I have questions/concerns over support of systems, file formats, and transmission options."

Since the origins of Electronic Data Interchange (EDI) in the 1960s, banks have been crucial partners in assisting companies in automating and integrating their payables and receivables processes. Many can bring decades of experience when answering questions and concerns over support of systems, file formats, and transmission. Some banks have dedicated implementation teams who will help companies plug into bank platforms and go live with their integration and automation solutions.

In our experience, we have seen many bankers who are knowledgeable about the technical minutia of their platforms. Software providers also have resources on how their products and outputs interact with banks.

Finally, there are many third-party solutions to addressing support, format, and transmission concerns. These range from consultative advice to middleware applications that can act as a translating interface between the bank and the company.

Myth No. 4

"Trading partners are unable to send or receive automated information, and it is difficult to convince customers and suppliers to adopt electronic payments."

The results of the 2007 Federal Reserve Payments Study are a clear indicator that the payments landscape is evolving away from paper-based payments. The study found that nearly two thirds of noncash transactions were electronic, compared with about half in the 2004 study. From 2003 to 2006, electronic payments grew at an annual rate of about 12 percent. Checks, however, decreased by an annual rate of about 6 percent.

In addition, organizations are more willing to adopt electronic payments than they were four years ago. In the Association for Financial Professionals 2007 Electronic Payments Survey, 43 percent of respondents said they expected their organizations to convert the majority of their major suppliers from checks to electronic payments in the next three years, compared with 28 percent stating such an expectation in 2004.

By outsourcing time-consuming check payments, for example, staffs can focus on moving trading partners to electronic payments. A primary barrier in converting trading partners to electronic payments is the provision of remittance information in a non-electronic format. That barrier is eliminated by the availability of remittance data readable by humans (whether it arrives via e-mail, a website, mail, or fax) in a format that mirrors the remittance portion of the check.

Building a Business Case for Payments Integration and Automation

Creating a strong business case is essential for garnering support to automate payables and receivables. Below, we walk through key benefits, as well as risks and costs. Because many organizations struggle with gathering internal data to support the business case, we also present ideas on how to obtain or estimate necessary information.

1. Identify and quantify (where possible) key benefits of payments integration and automation.

A. Quantitative benefits

General

- Lower all-in transaction costs due to lower per-unit processing costs
  - In our corporate work, Treasury Strategies has estimated that the average all-in cost of a manual, paper-based payment, from invoice to posting, is $10.79 and $3.41 for an electronic payment.
- Lower administrative costs due to the elimination of manual data entry and refocusing staff on value-add activities
- Lower costs due to easier access to compliance-related information
- Lower costs of investigations and exception processing
  - Fewer bank reconciliation items
- Improved investment opportunities due to earlier cash positioning and more accurate cash forecasting
- Improved investment returns due to quicker access to liquidity and the ability to hold on to it longer

Accounts payable

- Reduced unclaimed property costs due to lower rate of check payments in escheatment
- Lower fraud and operational losses due to improved security and controls
- Lower ACH and wire costs due to standardization of payment information outputs and integration with bank systems
- Optimized use of discounts on payment terms
- Revenue share from purchasing-card transactions

Accounts receivable

- Lower exception processing costs due to higher rate of auto-applied cash and automatically routed exceptions
- Fewer write-offs of receipts due to reduced levels of exceptions, enabling faster resolution of disputes
- Increased rate of collection on outstanding accounts due to redeployment of staff to collections function
- Decreased DSO

B. Qualitative benefits

- ERP or accounting systems investment leveraged to automate processes with bank
- Improved working capital management
  - Companies can benefit from improved relationships and payment terms from important trading partners.
- Increased visibility for cash management and planning
- Increased productivity due to strategic realignment
- Improved cash forecasting due to more reliable and trendable data on cash flows
  - Companies may see increased savings on variance analysis and improved yield on cash balances.

- Facilitated Sarbanes-Oxley compliance due to accurate and clear information
  - » Financial managers will be quicker to sign off on financial statements, given fewer exceptions and a reduced number of issues requiring interpretation.
- Greener business practices by removing paper from the payment process (potentially important to client satisfaction)
- Reduced control-risk due to reduction of bank reconciliation items
- Improved relationships with trading partners because of quicker access to previous payments and receipts to resolve disputes

2. Identify and quantify (where possible) key costs and risks of payments integration and automation.

A. Costs

- IT integration mapping and programming
  - » These could be internal or external costs, depending whether a third party assists with mapping and programming
- Ongoing system maintenance and upgrades
- Any proactive efforts to transition trading partners to electronic payment channels

B. Risks

- Rare occurrence of bank or reconciliation-related problems requiring manual intervention due to mismapping of data
- Mapping or programming errors that could drive payment errors, initially due to automated and batched processing of payments
- Reluctance of trading partners to send or receive electronic payments, limiting the level of straight-through processing
- Limited realization of the benefits of payments integration and automation, if the needed internal shift in culture does not occur
  - » For example, using paper-based controls on an electronic process may slow down the automation process.
- Smaller window to stop or reverse payments
  - » Wires settle in real time or at the end of the same day.
  - » ACH transactions usually settle in one to two days.

C. Risk mitigators

- Piloting of a payments integration or automation solution to detect any reconciliation problems, mapping issues, or programming errors
  - » This allows companies to catch any issues before the solution truly goes live.
- Some banks offer tools and services that will assist in converting trading partners to electronic payments, including online portals where trading partners can enter electronic payment information in a secure manner
  - » Banks can store information so that account information does not have to reside with their customers or be sent in each electronic payment file.
- Proactive work with internal staff to embrace the change in processes
  - » This will help internalize the shift and assist in aligning auxiliary processes (i.e., controls) so they fall in line.

3. Determine how/where to gather data for the business case.

The primary sources of data to quantify the benefits, as well as the costs and risks, identified in the previous section are the primary stakeholders in the payment process: the accounts receivable department, accounts payable/payroll (these may be separate groups), human resources, and an organization's IT resources.

Sample Cost/Benefit Analysis for Payments Integration and Automation

Savings Categories	Annual Savings
Receivables	
Bank Fees	
Convert 20% of receivables from check to ACH	Reduction from $1.00 per item to $0.15 per item X # items
Staff Time Savings (Receivables)*	Approximate reduction of staff time of 60% (average hourly wage + benefits X total hours saved)
Manual application of receivables (reduction of 60-70% minimum)	
Exception handling/correction	
Reduction in Days Sales Outstanding (DSO)	
Payables	
Bank Fees	
Convert 40% of payables from check to ACH	Reduction from $0.25+ per item to $0.15 per item X # items (check cost includes controlled disbursement and positive pay)
Staff Time Savings (Payables)	Approximate reduction of staff time of 30-50% (average hourly wage + benefits X total hours saved)
Invoice input	
Check print-run prep, check print and sign	
Check rematch	
Envelope stuffing	
Reduced reconciliation time	
Paper Fees	
Convert 40% of payables from check to ACH	
Outsource payables to bank partner (eliminate all paper)	
Improved Discount Terms for Payables	
Extending Days Payable Outstanding (DPO)	
Cost Categories	**Annual Costs**
IT Integration and Mapping to Accounting or ERP System**	
Internal IT cost allocation	
External costs (consultants, programmers)	
Bank/Integration Partner Fees	Fees for the payment integration service (file transmissions, maintenance fees) + payables outsourcing fees (if applicable)
Internal Efforts to Convert Clients/Vendors to Electronic Payments	Staff time X average hourly wage + benefits

* Staff time spent on receivables can be reployed for more value-add activities, such as credit and collections

** Many costs in this category will be temporary

Though some of the data may not be available at these groups' fingertips, it can be gathered through data analysis, interviews, and observations of day-to-day processes. Here we have provided a list of some of the crucial data points each group can provide, the benefits they map to, and some specific sources that can help in collecting them:

Accounts receivable

- **Department labor costs** are used in calculating both the all-in transaction costs and the administrative costs associated with manual processing. They can be determined by looking at department budgets or yearly P&L statements. The human resources department can also provide compensation and benefits information for staff members.
- **Costs of manual versus automatic processing** are crucial to proving the all-in transaction cost of an automatic payment versus a manual payment. Interviews about internal processes will help calculate these costs, as will a thorough review of bank account analysis statements to compare the costs of ACH versus checks, or branch deposits versus remote deposit capture, and so on.
- **Alternate uses of staff resources, including proactive collections of overdue accounts**, will help determine how administrative costs might be lowered through the refocus of staff on value-add activities. Again, interviews will usually be the best source in determining these uses.
- **Resources deployed in exception processing** are another piece in calculating the all-in, per-item transaction costs. In addition to interviews, organization charts can assist in determining how many staff members are dedicated to exception processing.
- **Auto-cash posting rates and DSO** will help determine how much more quickly a company will have access to its liquidity once it is received. Interviews and analysis of financial statements will help calculate these.
- **Rate and level of receipt write-offs** can be provided by staff dedicated to exception processing and collections.
- **Willingness or reluctance of clients to use electronic payments** will determine how much of a risk poor adoption would be, and also how to mitigate that risk. In this case, interviews with clients will provide the best reading of this possible risk.

Accounts payable/payroll

- **Department labor costs** are used in calculating both the all-in transaction costs and the administrative costs associated with manual processing. They can be determined by looking at department budgets or yearly P&L statements. The human resources department can also provide compensation and benefits information for staff members.
- **Costs of manual versus automatic processing** are crucial to proving the all-in transaction cost of an automatic payment versus a manual payment. Interviews about internal processes will help calculate these costs, as will a thorough review of bank account analysis statements to compare the costs of ACH versus checks.
- **Alternate uses of staff resources, including proactive collections of overdue accounts**, will help determine how administrative costs might be lowered through the refocus of staff on value-add activities. Again, interviews will usually be the best source in determining these uses.

- **Rates of check fraud and associated costs** will bring to light the extent that paper-based and manual processes create operational losses and necessitate additional controls. A/P staff will be able to provide these rates.
- **Costs of escheatment investigations** are a large driver for investigation costs on the payables side. In addition to interviews with A/P staff, state-by-state unclaimed property reports will also help calculate the size of a company's escheatment exposure.
- **Typical payment terms** can be found on invoices received from vendors and, sometimes, on internal payment orders. These will help calculate the costs of decreased access to liquidity.
- **Overpayment** can be calculated through a variance analysis between original invoices and final payments.
- **Willingness or reluctance of vendors to accept electronic payments** will determine how much of a risk poor adoption would be, and also how to mitigate that risk. In this case, interviews with vendors will provide the best reading of this possible risk. On the payables side, companies do have more power to dictate the method of payment.

IT group

- **Labor costs associated with maintaining financial systems** include the FTE used to install, maintain, and support end users. These can be obtained through budgets, P&Ls, and the human resources department. However, interviews with an organization's IT group will help to best determine when resources are allocated specifically to what payment functions.
- **System vendor maintenance costs of financial systems** can be provided by the IT group or directly from the vendors themselves.
- **Determining file formats, cross-compatibility, and bank compatibility** might require cooperation from internal resources, bank resources, and technology vendor resources. File compatibility is a key issue in automation. However, middleware solutions can translate files as needed.
- **Availability and cost of resources for implementation and testing of integration** can be determined through conversations with senior-level IT or higher administrative personnel. In our experience, because of the high demand for IT resources within an organization, the projected ROI on a project can be used to decide if IT resources will be provided.
- **Costs of multiple bank connections** include bank fees, hardware (server) costs, and telecommunications costs. These can be collected through bank statements, telecommunications statements, and interviews with IT personnel.

External sources can also provide valuable data in a business case for payments integration and automation. Account analysis statements are easily accessible and can help determine the costs of paper versus electronic payments and all the services employed to support any manual processes. Consultants, as well as trade and payment associations (such as TAWPI), provide benchmarks and best-practice reviews.

Across the internal and external sources available, it is possible to gather meaningful data to build a strong business case for payments integration and automation.

Choosing a provider

Once the business case has been built and the investment in an automation or integration solution approved, the next step is to select a provider. Choosing the right partner is crucial in realizing the return on investment (ROI) that you have predicted in your business case. In addition to the quality of the services each provider can offer, companies should address each of the issues below when making a selection:

Choosing the right partner is crucial in realizing the return on investment (ROI) that you have predicted in your business case.

- **Consultative approach:** Does the provider demonstrate that it would be a knowledgeable and consultative partner? In addition, is the provider willing to work on a project basis to develop an enterprise solution? Finally, can the provider offer ongoing support as the needs of the business evolve?

- **Flexibility:** Does the provider offer flexibility in terms of integrating with and supporting different systems, file formats, and transmission options? Does the provider offer any type of prebuilt integration solution or partnership with specific ERP system providers?

- **Comprehensive solution:** Does the provider have a streamlined, affordable integration option or process? Does the provider offer a platform for vendor entry of electronic payment information? Does the provider support all payment types? Does the provider support the scale of payables or receivables? Can the provider deliver remittance detail separately?

- **Straight-through processing (STP):** Do the solutions deliver high rates of STP and meet payment cutoff deadlines?

Though banks have made strides in making integration and automation solutions available for companies of all sizes, these solutions still need to be customized on a company-by-company basis. This is particularly critical for companies with limited resources or internally developed accounting systems. In our experience, we have seen providers play a critical role in ensuring that the returns on these investments are fully realized for companies of all sizes and capabilities.

Conclusion

Automating payment systems is more important than ever before for middle market companies. It is also achievable. By building a business case using the guidelines in this paper, it is possible to quantify the benefits of an investment in an automated system. A new generation of affordable integration options is now being made available by banks and is accessible to companies of all sizes.

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