

Wednesday, January 11, 2006

THE ACCOUNTS PAYABLE DEPARTMENT is an area often overlooked for improvement. Learn how small changes to your AP processes can net big results to your bottom line.

Do you know how much it costs your organization to process an invoice?

More than a third of senior executives do not, according to a survey conducted by the Economist Intelligence Unit's (EIU) "Future Finance" survey (2005), which also shows that some organizations spend as much as \$40 to process an invoice.

For today's finance staff members, who are challenged to improve the efficiency of their operations — as well as the strength of their bottom lines, studies like this one portray the accounts payable department as a boon of opportunity. And rightly so. In addition to saving money, refining AP processes helps many companies:

- mitigate fraud and risk;
- boost productivity;
- improve recordkeeping; and
- improve planning and cash forecasting.

Though the benefits are seductive, the task of streamlining what may be an intricate or overgrown system may seem daunting. But improving AP processes is not an all-or-nothing proposition. In fact, small changes can net big results. According to the AP experts at Mellon, for some companies, saving \$100,000 in the AP shop translates to as much as \$400,000 they don't have to make in revenue. To support your efforts to increase the efficiency of your AP processes without a total overhaul of your system, Mellon has identified four key practices every company should strongly consider.

Key Practice #1: Convert paper invoices to electronic documents.

At many organizations, 40 percent of invoices are already late by the time they get to the AP department. However, companies that route invoices electronically can *speed the*

approval process and pay invoices more quickly, thus reducing the likelihood they will be charged late fees and perhaps even earning prompt-pay discounts. Using OCR (Optical Character Recognition) technology to scan invoices as they arrive enables organizations to create a Web-based warehouse of invoice images that may help you achieve other efficiencies:

- eliminate the need for physical storage space;
- improve your staff's ability to search and retrieve invoice information;
- simplify exception management processing; and
- extract data to track performance, such as average processing time.

Key Practice #2: Work with vendors to electronically receive invoices and make payments.

Taking paper out of the AP process is an excellent way to improve efficiency. So why not eliminate paper invoices entirely by asking vendors to invoice you electronically? An Electronic Invoice Presentment and Payment (EIPP) solution may help. EIPP can allow you to accept invoices via file transmission, the Internet or e-mail and also enables you to make payments electronically with ACH (automated clearing house) debits. EIPP helps many organizations to:

- accelerate the invoice receipt-to-pay cycle;
- reduce processing costs;
- strengthen vendor relationships;
- earn prompt-pay discounts;
- improve cash forecasting; and
- reduce fraud.

Of AP pros surveyed by IOMA (Institute of Management and Administration) in its 2005 *MAP Management Survey* on the best ways to cut AP costs, one-third use imaging, electronic invoicing and/or electronic payments.

Key Practice #3: Control fraud with Positive Pay and Positive Payee.

While most organizations use controlled disbursements services, many could be doing a better job to prevent check fraud — especially as new legislation, such as Check 21, may cause criminals to seek new and different opportunities for fraudulent activity. Companies may reduce cash losses due to fraud and save time spent tracking potential losses by implementing positive pay and positive payee services:

- *Positive pay* matches check issue information supplied by your company with magnetic ink character recognition (MICR) data captured during check processing. Items that do not match are flagged as potentially fraudulent, preliminarily researched by your bank and if deemed suspect, included on a suspect report. You can make pay/no pay decisions based on this report. In addition, an end-of-day transmission lists all items paid or returned, enabling you to update your accounts payable, general ledger and online inquiry systems daily.
- *Positive payee* identifies potential alterations to a check's payee lines by comparing the payee name from the images of the checks with payee information gathered from your issue files. Again, suspicious items are referred for a pay/no pay decision. Items with an altered payee line are identified and returned resulting in a credit on the day following return. Mellon's Positive Payee service, for example, has flagged more than 255 possibly fraudulent checks in its three-year existence, preventing nearly \$4.5 million in potential check fraud.

Key Practice #4: Pay with purchasing cards.

Of AP pros surveyed in IOMA's 2005 *MAP Management Survey* on the best ways to cut AP costs, the top answer was purchasing cards. Arming employees with "P-Cards" may streamline your procurement process by reducing the time-consuming, paper-intensive process of completing forms, obtaining authorizations, cutting checks and reconciling invoices. Ideal for routine, high-volume, low-dollar purchases, P-Cards may even earn you rebates for frequent use. Additionally, the data collected from P-Cards enables organizations to improve tracking, better monitor purchases and better negotiate with vendors.

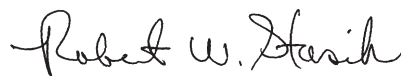
To achieve even greater efficiency, many companies outsource the administration of their purchasing card programs. By letting someone else track spending, analyze and audit statements and manage new card applications, organizations can reduce man-hours and reallocate resources — time, money, people — to other tasks. Additionally, outsourcing the administration of your purchasing card programs may help you:

- increase control of the process through audit and compliance reporting;
- improve your overall payment process through merchant category code and vendor analysis;
- analyze AP to determine increase in purchasing card utilization; and
- increase visibility into spending trends through spend reporting and analysis.

Choose the solution — or solutions — that work best for you.

These four key practices are just some of the many ways to create greater efficiency in your AP department and in your organization. While some companies may benefit most from a total AP solution, others may only need a quick fix to accomplish a very specific goal. Consult with your cash management provider to find a solution that best fits your short-term needs and long-term goals.

A word of caution: Providers who charge on a per-transaction basis may not be enthusiastic about helping you improve AP processes because they could lose revenue as your paper transactions decline. Look for a provider who understands the importance of your relationship and is willing to find a solution that works for you. As always, feel free to give me a call. And remember, it is okay to take AP reform one step at a time.



Robert W. Stasik
Executive Vice President
Sector Head, Mellon Payment
Solutions & Investor Services
Mellon Financial Corporation

