

# Building<sup>CFMA</sup>Profits

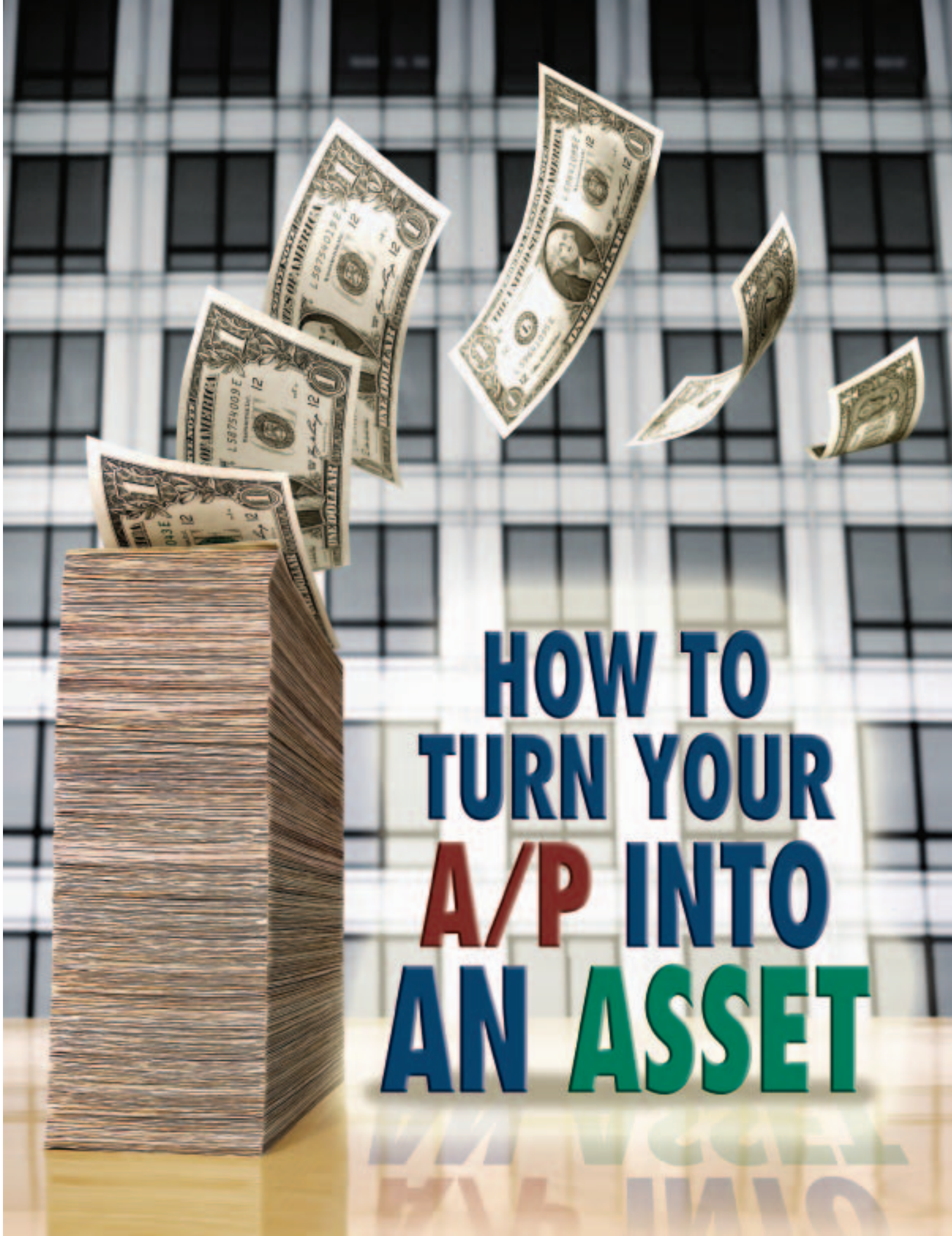
THE MAGAZINE FOR CONSTRUCTION FINANCIAL PROFESSIONALS

R E P R I N T



NOVEMBER-DECEMBER 2009

**CONSTRUCTION FINANCIAL MANAGEMENT ASSOCIATION**  
*The Source & Resource for Construction Financial Professionals*



**HOW TO  
TURN YOUR  
A/P INTO  
AN ASSET**

# To many CFMs, this title will sound like heresy, but read on to discover a quite different point of view.

BY BUD VIANCOURT

## **A/P: Liability or Pitfall?**

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In the balance-sheet driven world of CFMs, A/P is technically a liability. Money is owed to entities outside the company under different timelines, terms, and conditions. And when the A/P process is performed manually by paper pushing, it becomes more “pitfall” than “liability.” Data entry is duplicated; errors are made; discounts are missed – all missteps that today’s construction companies just can’t afford.

Fortunately, technology is available that can prevent these slip-ups. In fact, certain technologies are proven to streamline processes and data retrieval while improving the visibility of cash flow – which can help you, as the CFM, make more informed, financially sound decisions.

The timing couldn’t be better. With the combination of slow business and room for significant improvement, now is the time to take a good hard look at your A/P department. It’s the perfect opportunity to make the necessary changes that will take your A/P from a hard-to-manage liability to a lean, strategic asset.

## **Why A/P?**

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A/P is one function of the construction finance formula. As a liability, the general goal is to keep a relatively high level of payables. But, there are several factors that demonstrate A/P is the best place to start improving cash flow.

### **A COMPLEX PROCESS THAT GOES BEYOND BEING A LIABILITY**

To reiterate, the traditional A/P approach strives to maintain a high level of payables as the formula for success. But, there are other considerations that complicate this simple goal. For example, the savings gained by early payment discounts can

outweigh what is earned by keeping the payments until the last minute. Also, penalties, overpayments, and duplicate payments can easily turn into unexpected and unwelcome changes to cash flow.

Finally, no matter how automated your A/P processes, vendor relationships are still important. Maintaining positive working relationships with your vendors is often critical to improving payment terms. And to do that, you must have all the right information available at the right time.

### **MANUAL PROCESSES & PAPER = LOTS OF ROOM FOR IMPROVEMENT**

Historically, the A/P function is a very manual, paper-intensive process. There are many reviews and approvals associated with each transaction and each comes with several pieces of supporting documentation. (See Exhibit 1 on the next page.)

Much of the documentation (such as invoices, canceled checks, credit statements, purchase orders, packing slips, credit memos, vendor contracts, and discount structures) comes in paper form. In fact, according to the 2008 International Accounts Payable Professionals (IAPP) Member Benchmarking Survey, 69% of all invoices still exist in paper format, making the process difficult to manage.<sup>1</sup>

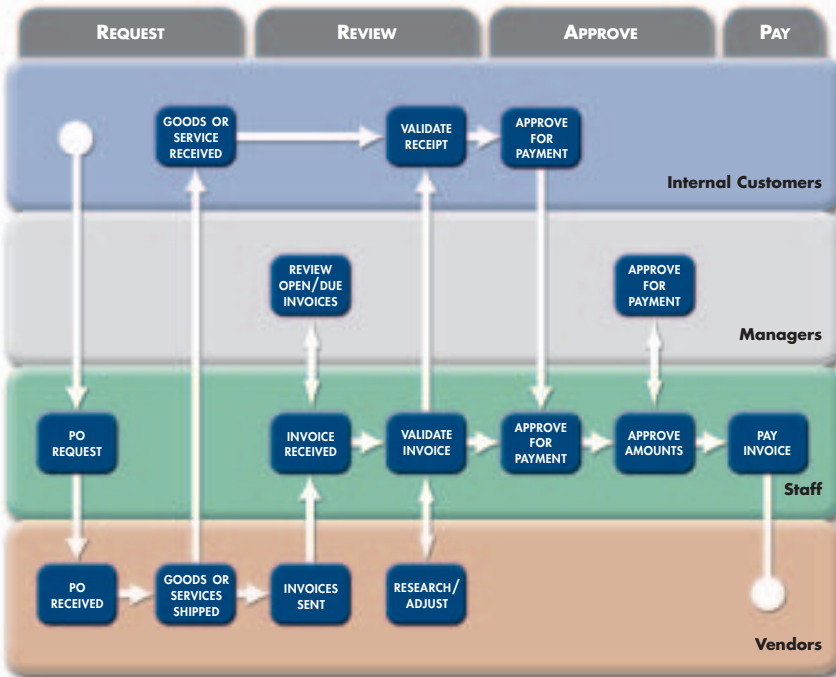
### **AN OPPORTUNITY TO LOOK AT INTERNAL CASH**

In tough times, it’s important to know what you can and can’t control. Clearly, sales can’t be relied upon to help cash flow right now. Therefore, turn to what you can control: the cash you already have.

As the gatekeeper to your company’s cash, A/P is the best bet for improving cash flow in a down economy. And, since business is probably slower than usual, there is no better time than right now to look inward.



## Exhibit 1: The Accounts Payable Life Cycle



By taking a close look at your current financial processes (especially A/P), you can better position your company for the inevitable upswing. So, now that we've identified "where" to improve cash flow, let's look at "how."

### The Solution

It's no secret that manual processes can present challenges. Take, for example, the simple filing cabinet. True, it can hold any number of folders for purchase orders, contracts, invoices, etc. But when your A/P clerks need to see one of those documents, they have to get up, walk over to it, and dig through often unorganized information in hopes of finding whatever they need.

Other issues further complicate the situation: employees who work remotely, data security, and limitations on the number of people able to view a document at one time. Today's technology has the power to change all of this for the better.

### OLD TECHNOLOGY STILL HAS ITS PLACE

Enterprise resource planning (ERP) is a mature technology that has been used in financial departments for more than a decade. But, companies are beginning to see that while these systems are good at managing data, they still leave room for improvement.

For instance, ERPs weren't designed to handle the paper documents that support the data, nor were they equipped to support approving purchase orders. ERP systems, like all technologies, have their limitations.

### NEW TECHNOLOGY ADDS VALUE

This is where document imaging and workflow processing enter the picture. Most commonly called enterprise content management (ECM), this type of software provides the process automation needed to address the issues we've discussed.

According to the PayStream Advisors report entitled "Imaging & Workflow Automation," this technology has become more valuable to A/P departments in recent years. The report states:

"A/P departments now have to process more invoices and pay them faster, all with a smaller staff. The biggest stumbling block to accomplishing this has been our continued reliance on

paper-based invoices and people-based processes.

"A significant shift is beginning to shake traditional A/P operations, starting with the search for automation options that help them address the hassles inherent to people and paper-based activities. Our research indicates that Imaging & Workflow Automation (IWA) solutions that streamline the invoice receipt-to-pay cycle have matured and become mainstream technology."<sup>2</sup>

Simply put: When integrated with an ERP system, ECM can manage the entire A/P process electronically. The software captures invoices and other documents when they are received. Then, it manages the routing and approvals of the documents throughout the process. Here are some other specific benefits:

### Augments Existing Business Applications

ECM software is specifically designed to integrate with other systems. This is very important because A/P employees spend a majority of their time in ERP systems. So, by integrating the two, employees can continue to work in their familiar ERP systems, while ECM works on the back end to manage additional content and processes.



### **Creates & Maintains Records**

ECM software creates a trail that documents every action that is performed. While this has significant implications for auditing, it can also prove very useful when disagreeing with a vendor's A/R department about late payments.

### **Reduces Human Error**

Whenever people are involved in a process, there's a high likelihood (even a high probability) of error. In A/P, vendor names, purchase order numbers, and addresses must be entered into the ERP system regularly. One missed number or letter can completely alter an entry – and affect how efficiently and effectively that transaction occurs.

ECM software eliminates many process steps through automation, including critical data entry. For example, when an invoice is scanned, the ECM software automatically identifies the vendor's name and matches it with an existing purchase order.

### **Saves on Fixed Costs**

Fixed costs (such as paper and filing cabinets) don't bring any value to the A/P process and, over time, these costs can add up. But by using ECM, many of these fixed costs can be eliminated. To put these savings into perspective, let's look at some data from Forrester Research.

According to its "Best Practices: Invoice-To-Pay Process Automation" report: "Inefficient manual processing can cost \$20 or more per invoice, but companies can cut this to \$5 or less using accounts payable electronic invoice presentment and processing applications."<sup>3</sup>

Obviously, cost reductions like these would have a very positive impact on a construction company's cash flow. Let's look at how one business is using ECM and ERP technology in A/P and their results.

## **Case Study**

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This construction company provides building materials and construction services to professional residential builders and contractors. In addition to more than 60 locations, it also has 20 A/P departments. In fact, hundreds of thousands of invoices are received and processed annually. (This number peaked at 604,350 in 2006.)

### **THE PROBLEMS**

All invoices were received centrally at the company's main

office. But, purchase orders were generated and stored separately in the 20 A/P departments. Therefore, in order to match invoices with purchase orders, each invoice was shipped to the location of the corresponding purchase order. This became such an issue that the A/P Director informally claimed: "We're not in the construction business. We're in the invoice shipping business."

But, invoices weren't the only point of contention. Each A/P transaction involved other paper documentation (purchase orders, contracts, packing slips, etc.) in addition to each invoice. To be compliant, everything had to be maintained and tracked for 60-90 days after each transaction closed. And, as the number of transactions grew, so did the paper.

In addition, external audits also presented a costly problem. Auditors would spend days at the company, sifting through piles of paper documents to find the information they needed. The time spent there incurred extensive hotel charges and other costs associated with keeping them onsite. At the end of the day, these bills had to be paid by the construction company.

### **THE A/P TECHNOLOGY WISH LIST**

With these problems in mind, the A/P Director set out to find the right technology solution that would accomplish her five primary goals. Affectionately called her "A/P Technology Wish List," these goals included the ability to:

- 1) Consolidate A/P processes into one central function;
- 2) Get rid of paper;
- 3) Automate data entry as much as possible;
- 4) Create the same working experience for all users; and
- 5) Handle varying workloads without increasing staff size.

### **THE RIGHT TECHNOLOGY FOR THE JOB: ECM & ERP**

But, this five-item "Wish List" was just the beginning of what the company wanted its chosen technology to do. When all the priorities were vetted, a grand total of 188 requirements were included in the RFP. The technology that met all of these requirements: ECM.

In addition, the company opted for a less traditional, but increasingly popular, approach to deploying software. Called software as a service, or SaaS, the company's ECM software was managed in the vendor's data center using the vendor's security measures and equipment. (For more on this type of



technology, see Bassem S. Hamdy's "SaaS: An Option to Consider in Today's Economy" in the July/August 2009 issue.)

This allowed the construction company to minimize the time and resources it spent managing the software and also allowed its new system to be up and running sooner.

### RESULTS MATTER & MONEY TALKS

With the combination of the right technology and the right deployment option, the results rolled in – fast. All of the five items on the "Wish List" were accomplished, yielding a 100% ROI in just nine months. Here are the specifics:

- The ECM software greatly improved the A/P clerks' work experience and efficiency. Before ECM, they would have to go back and forth among six screens to do their jobs. Now, they're able to do all their work in just one.
- According to industry averages, the typical A/P clerk processes 15,000 invoices a year. Now that ECM is in place, these clerks handle four times that number – an average of 60,878 invoices per person in 2008.
- Onsite auditor costs are a thing of the past. Because the software has advanced security features, the company simply provides limited login access to its auditors. With this in place, the auditors don't have to travel to the company's offices to complete their audits, thereby eliminating hotel fees and other related costs.
- The company estimated that if its A/P departments went back to doing things manually, it would cost an additional \$1 million per year.

### Making It Happen

As the saying goes, "With great challenges come great opportunities." This is certainly the case for today's CFMs. Bottom lines aren't growing the way they were even a few years ago, and there's definitely room for improvement in most A/P departments. You can positively impact your company's financial results by driving the types of change covered in this article.

But, it's up to you to establish the business case for acquiring the needed technology. To win approval right now, any proposed IT project must have a proven track record, be quick to implement and easy to integrate, and deliver a speedy ROI. Fortunately, ECM is all of these things.

In this case study example, the A/P Director was the primary influencer. She had the credentials and experience to validate

her claim that changing A/P processing was the obvious way to improve cash flow. Successfully making her case, and ultimately delivering stellar results, has positioned her as a strategic asset to her company. It has also made getting the go-ahead on future projects much easier.

My challenge to you: Pair your financial expertise with your technology know-how to become a tech-savvy financial pro. You already have the influence. You certainly have the opportunity to improve the bottom line. So, use technology as your enabler to transform your A/P department into a transparent, revenue-promoting value center for your company.

As another old saying goes, now is the time to "seize the day." I think you – and your company – will be glad that you did. **BP**

### Endnotes:

1. The 2008 International Accounts Payable Professionals (IAPP) Member Benchmarking Survey was released March 11, 2009. It was "conducted to identify best AP practices and procedures in an effort to streamline processes, lower costs, and enhance the efficiency of AP operations."
2. PayStream Advisors, Q3 2009, "Imaging & Workflow Automation," by Sush Koka.
3. Forrester Research, November 19, 2008, "Best Practices: Invoice-To-Pay Process Automation," by Duncan Jones.

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Bud has more than 20 years of IT experience in the manufacturing and commercial sectors. Prior to joining Hyland in 2002, he held a variety of positions in the steel industry. He has specific expertise in lean manufacturing, quality management, and supply chain initiatives. He has spoken at several industry events.

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