

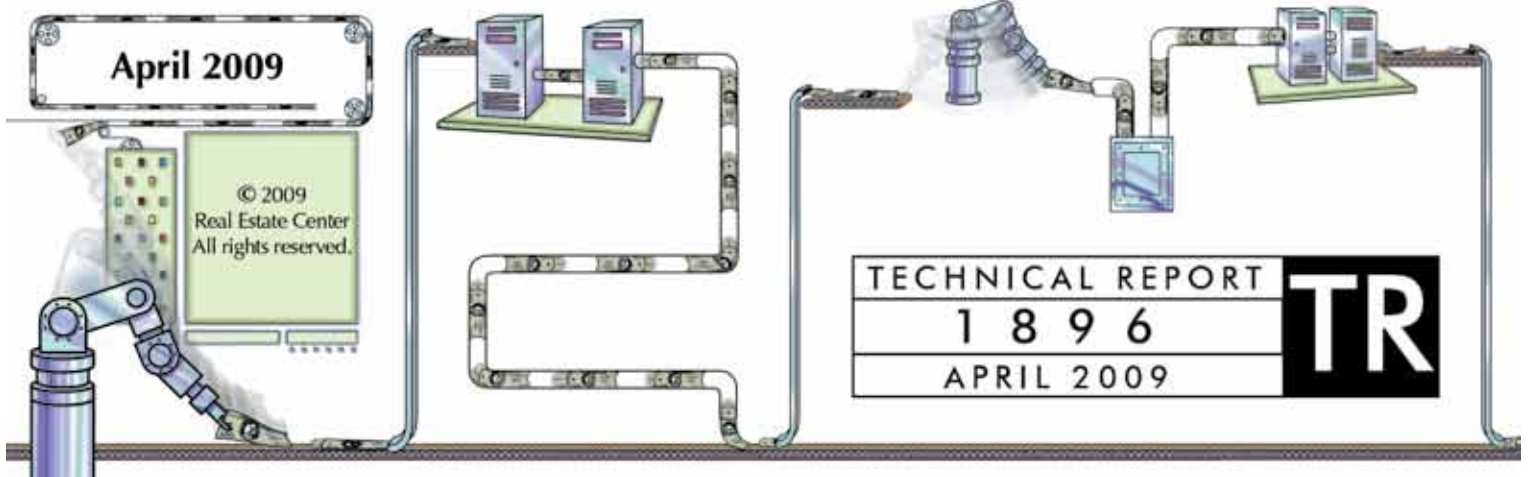


**REAL ESTATE CENTER**

AT TEXAS A & M UNIVERSITY

# Automating Accounts Payable

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These days, real estate firms are looking for opportunities to reduce costs and improve control of cash flow. A smooth-functioning accounts payable (A/P) system is a critical element in any effort to conserve cash. Consistently paying invoices late could cause banks and vendors to view a firm as a bankruptcy risk.

## Why Automate?

A/P is often viewed as a back-office function that is not essential for real estate firms. Technology and automation are seen as even less important. More attention is paid to gross profit on sales than to the labor costs required to process invoices for the numerous daily transactions that keep a business functioning. As a result, A/P processing costs are likely to be higher than they should be. Many real estate firms rely on the antiquated manual systems they have always used.

The good news is that A/P automation may be a “quick win” for managers trying to enhance profitability and improve visibility into cash flows. David Srou, managing director of Real Foundations, a full-service management consultancy firm focused on the real estate industry, says that “automating A/P and disbursements represents one of the greatest opportunities for businesses today. The highest potential for head count reduction and cost savings is in automating disbursements.”

Few foreign businesses make payments via paper checks. Instead, they make virtually all disbursements electronically. U.S. businesses are unique in their continued dependence on outmoded paper checks. New technologies for electronic disbursement processing can fix this wasteful process.

The Aberdeen Group benchmarked invoice processing costs for over 150 firms in a 2007 report called “Accounts Payable Transformation: Better, Faster, Cheaper.” Results showed that it costs an average of \$13.53 per invoice to process invoices manually. A more important finding illuminated the wide disparity between the best- and worst-performing firms (see table).

The best-in-class firms engaged in a combination of outsourcing and automation to achieve their gains. Outsourcing

produces savings by transferring portions of the A/P process to service bureaus with specialized staff and technology. These bureaus have economies of scale that enable them to perform tasks at a lower cost than the all-in costs of a typical business.

Automation also produces significant savings for firms. The Aberdeen report found that time and money are the two main drivers for A/P automation. Automation reduced the time necessary for posting expenses into internal systems. When expenses are posted sooner, management is better able to manage cash flow and compare actual performance to the budget.

The cost savings sought were for items such as labor, administration and technology support. Srou asserts that accounts payable personnel spend “30 percent to 50 percent of their time processing disbursements.” This represents a significant expense for a nonvalue-added activity. When automation is introduced, labor can be eliminated or redirected to value-added tasks.

Anyone who uses online banking for their personal finances is already familiar with the fundamentals of A/P automation. Online bill-pay services give users the ability to receive monthly bills from vendors in electronic format through a bank’s website. This is similar to automated A/P systems that provide digitized invoices for review and approval. After reviewing a bill, users can schedule payments to be made when sufficient funds will be available in the account.

Automated A/P solutions should be viewed as a feature-rich substitute or enhancement for A/P modules included in business accounting software packages. Traditional A/P modules have much less functionality than the automated A/P solutions offered in the marketplace today.

## How Does It Work?

Automated A/P can be broken into five core process areas:

- *Procurement*: Online catalogs, online purchasing, discounts through order consolidation.
- *Invoice Processing*: Electronic invoicing, digitizing paper invoices, invoice indexing and coding.

### A/P Benchmark Performance

Definition of Maturity Class	Mean Class Performance
<i>Best-in-Class:</i> Top 20 percent of aggregate performance scorers	\$2.00, 8.6 days to process single invoice
<i>Industry Average:</i> Middle 50 percent of aggregate performance scorers	\$8.36, 17.4 days to process single invoice
<i>Laggard:</i> Bottom 30 percent of aggregate performance scorers	\$29.38, 20.3 days to process single invoice

Source: Aberdeen Group, December 2007

- *Approval Workflow:* Verification, reconciliation, rules-based routing of invoices to approvers, e-mail notifications of invoices ready for approval.
- *Accounting System Integration:* Import invoice data into the accounting system, upload invoice adjustments from the accounting system. If payment made using accounting system, upload payment details to A/P system; if payment made using A/P system, upload payment details from bank system.
- *Disbursements:* Make payments to vendors using bank's payment system or alternative payment forms, including Automated Clearing House (ACH), Electronic Funds Transfer (EFT)/wire, credit card payment, paper check.

A hypothetical automated A/P system with an overview of the process from procurement to disbursement is illustrated in the figure below. Many vendor and software configurations exist. A firm's project team can use this conceptual system as a framework for discussions with prospective vendors. It should help the team understand what competing vendors are offering and how their products fit together with other vendor products in the larger solution. The firm's goal is to find the right vendor mix that will enable it to meet its unique processing needs and achieve best-in-class benefits.

## Preparing for Automation

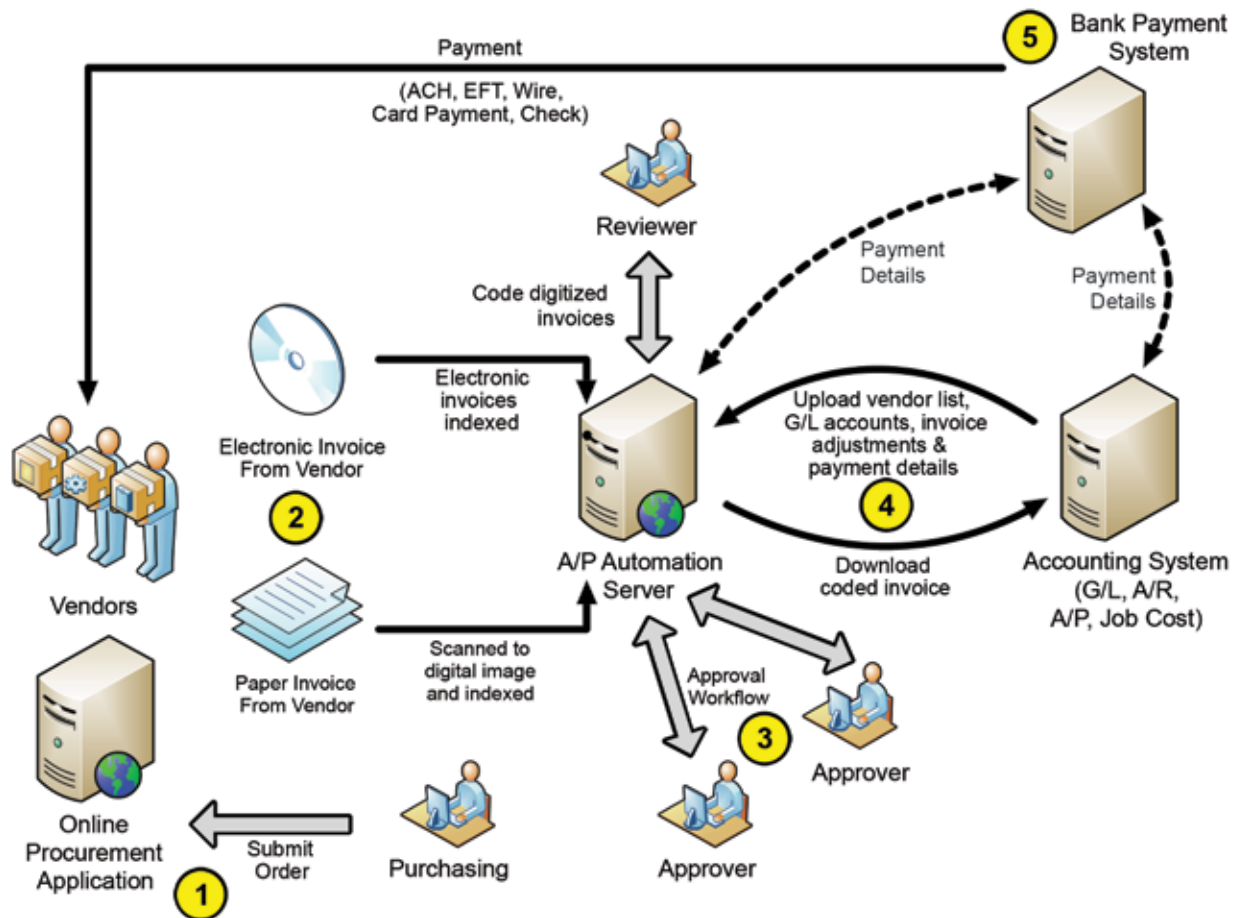
A firm begins the transition to automated A/P by:

- selecting an online marketplace or procurement service through which it can place orders for goods;
- selecting an invoice processing service bureau to receive and process invoices from vendors or creating a centralized receiving location within the organization;
- notifying vendors of the new address for submitting invoices (vendors can submit electronic or paper invoices);
- scanning and indexing paper invoices by attributes such as vendor, property and amount, and
- giving employees access to the A/P automation server so they can view scanned invoices from any location.

Once the automated system is in place, the A/P process generally follows these steps (see figure):

- 1 Purchasing Department places orders through the online procurement application or directly with vendors.
- 2 The processing location receives all invoices from vendors and scans the paper invoices. A reviewer indexes the digitized invoices so they can be routed to authorized individuals for coding and approval.

## A/P Automation Overview



Source: Real Estate Center at Texas A&M University

- ③ The rules-based approval workflow sends e-mail notifications to approvers notifying them that there are invoices ready for review and approval.
- ④
  - The approved invoices are downloaded into the A/P and general ledger modules of the accounting system so the two systems are automatically synchronized.
  - Adjustments made to an invoice in the accounting system are uploaded to the A/P automation server so the two systems remain synchronized.
  - If a payment file is generated from the accounting system and transmitted to the bank to schedule disbursements, payment details are uploaded to the A/P automation server. If a payment file is generated from the A/P automation server and transmitted to the bank to schedule disbursements, payment details are downloaded to the accounting system.
- ⑤ The bank issues payments to vendors in various formats including ACH, EFT/wire, credit card payment or paper check.

For owners of small real estate firms, this process may seem overwhelming or beyond what they perceive as feasible. But even the smallest real estate firm can benefit from automated disbursement processing by partnering with their bank. Most large commercial banks offer a disbursement service to their commercial customers.

Larger real estate firms looking at full A/P automation programs should focus on products specifically created for the real estate industry, such as AvidXchange from AvidXchange Inc., PAY platform from rCash Inc. and PayablesNexus from Nexus Systems.

### Where Do I Start?

The Aberdeen Group's 2007 report "ePayables Solution Selection: Your 2007–2008 Guide to A/P Transformation" is an excellent resource to help firms get started in selecting an automated A/P solution. Aberdeen recommends that firms assess automated A/P products in four primary areas:

- *Invoice receipt*: Process of receiving and digitizing invoices. Electronic invoices can be received in different formats, so a firm will need to choose a format. Invoice digitizing and indexing can be outsourced to an A/P automation vendor or performed in-house.
- *Approval and inquiry*: Rule-based workflow to route the electronic invoice for review and approval within the firm. A web-based product can support A/P automation for a geographically decentralized organization.
- *Validation and reconciliation*: Process for validating invoice accuracy and resolution of any errors or discrepancies in invoices.
- *Settlement*: Process for initiating payment.

### Selected A/P Automation Solutions\*

<p>Visa Payment Solutions</p>	<ul style="list-style-type: none"> <li>• An extension of Visa's commercial card service</li> <li>• System functions like the A/P automation server</li> <li>• Performs disbursements through card payments</li> <li>• Info <a href="http://www.visa.com/commercial">www.visa.com/commercial</a></li> </ul>
<p>Bank of America ePayables Solution</p>	<ul style="list-style-type: none"> <li>• Offered as a part of Bank of America's Card Solutions service</li> <li>• Provides a vendor match service that matches your vendors to a database of companies accepting Visa or Mastercard payments</li> <li>• System functions like the A/P automation server</li> <li>• Performs disbursements through card payments</li> <li>• Info <a href="http://www.bankofamerica.com/index.cfm?page=corp">www.bankofamerica.com/index.cfm?page=corp</a></li> </ul>
<p>AvidXchange</p>	<ul style="list-style-type: none"> <li>• Product suite covers processes from invoice processing to accounting system integration</li> <li>• Info <a href="http://www.avidxchange.com">www.avidxchange.com</a></li> </ul>
<p>PAY Platform</p>	<ul style="list-style-type: none"> <li>• Product suite covers processes from invoice processing to accounting system integration</li> <li>• Info <a href="http://www.rcash.com">www.rcash.com</a></li> </ul>
<p>PayablesNexus</p>	<ul style="list-style-type: none"> <li>• Product suite covers processes from invoice processing to accounting system integration</li> <li>• Info <a href="http://www.nexusystems.com">www.nexusystems.com</a></li> </ul>
<p>Custom Integration</p>	<ul style="list-style-type: none"> <li>• CB Richard Ellis (CBRE) hired multiple vendors to provide components of automated A/P**</li> <li>• Vendors selected:               <ul style="list-style-type: none"> <li>o SiteStuff Inc. provides paperless purchasing source and spend management service</li> <li>o Cambridge Solutions Ltd. digitizes paper invoices</li> <li>o rCash Inc. PAY platform routes electronic invoices for approval</li> <li>o Bank of America provides electronic disbursement facility called PayMode</li> </ul> </li> <li>• Info               <ul style="list-style-type: none"> <li>o <a href="http://www.sitestuff.com">www.sitestuff.com</a></li> <li>o <a href="http://www.cambridgeworldwide.com">www.cambridgeworldwide.com</a></li> <li>o <a href="http://www.rcash.com">www.rcash.com</a></li> <li>o <a href="http://www.paymode.com">www.paymode.com</a></li> </ul> </li> </ul>

\*The Real Estate Center at Texas A&M University does not endorse any products identified in this article.

\*\*Source: The Realcomm Edge, September/October 2008, The Realcomm Conference Group LLC.

In addition to these areas, it is important to assess the product's integration with a firm's accounting system. Integration between systems is important to avoid having to maintain multiple systems or perform dual data entry between the A/P automation server and the accounting system. Dual entry greatly reduces the benefits of A/P automation.

The key benefits of A/P automation are:

- *Reduced processing time:* Time required to perform purchasing, payment and reconciliation processes is reduced. Paper invoice delivery time in geographically distributed firms is eliminated.
- *More timely payments:* Invoices are processed faster, allowing a firm to take advantage of discounts and reduce late payments.
- *Streamlined reporting:* Digitizing and indexing paper invoices early in the A/P process enables faster reporting of invoice status throughout the lifecycle of a purchase.
- *Automated reconciliation process:* Digitizing invoices facilitates automated reconciliation with purchase orders. Electronic payment data can be automatically reconciled with invoices.
- *Improved spending analysis:* Increased electronic data about invoices and steps in the A/P workflow enables management to assess performance of A/P function. Shorter invoice processing times enable quicker accrual reporting for common area maintenance and management reporting.
- *Reduced storage and retrieval costs:* All invoices and supporting documents are digitized so physical storage of paper documents is no longer necessary. Labor associated

with retrieving old invoices is minimal because all invoices can be viewed using the A/P automation software.

## Additional Resources

- *Institute of Management and Administration Inc. (IOMA)* Publishes extensive information about accounts payable and best practices. Info [www.ioma.com/accounts\\_payable/](http://www.ioma.com/accounts_payable/)
- *Accounts Payable 360* IOMA's accounts payable membership community.

## The Takeaway

The shortage of capital for real estate investment makes it imperative that firms take steps to reduce costs and improve cash management. Real estate firms cannot afford to be late on cash payments, creating a perception of bankruptcy risk for creditors.

Firms of all sizes should investigate A/P automation as one way of weathering these difficult times. Those adopting electronic invoice processing can expect to achieve a cost advantage of 33 percent to 41 percent per invoice over competitors that process invoices manually. Best-in-class firms are able to process invoices approximately 12 days faster than laggard firms. Best-in-class managers can see expense accruals much sooner and spend more time managing disbursements.

Small real estate firms can experience significant benefits by partnering with their banks to automate disbursements. Mid- and large-size firms with geographically distributed offices will benefit from centralizing invoice processing and automating the invoice review and approval process.



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