Making the (Paper) Cut

By Greg Hammermaster

When it comes to enjoying the efficiencies, cost-savings and security of electronic payments, the U.S. is lagging behind its Canadian and European counterparts. The industry research firm Aberdeen Group found disbursements by paper checks in the U.S. still account for 70 percent or more by major suppliers, as compared to approximately 5 percent in such countries as Germany, the Netherlands and Switzerland.

This is especially ironic in a country that has had, since the beginning, one of the highest levels of Internet access on the globe. So what's the holdup, and is now the time for change?

Increasing Cash Flow

A recently published payments report by Aberdeen — *Global Payments: Maximizing Cash Flow with Electronic Payments and Process Automation* — finds that leading companies are optimizing payment processes to increase cash flow. Electronic payments and process automation are helping these companies streamline and accelerate finance processes, reduce operating costs and improve visibility, control and efficiency to provide a foundation for increased profits.

Nasreen Quibria, senior analyst at Aberdeen and author of the third annual report, says, "Despite the reign of the paper check and manual-based processes in business-to-business transactions in the U.S. and many parts of the world, economic and efficiency gains from automating the financial supply chain — from invoicing through payment settlement — are key motivators for demand and supply to align.

"While the adoption of electronic payment vehicles requires businesses to alter their payment behavior and restructure their financial processes, companies that can make the shift will gain competitive advantage," she notes.

In its survey of more than 160 companies worldwide, Aberdeen found that companies are focused on maximizing cash flow and taking a holistic approach to transactions — examining the flow of funds into Accounts Receivable and out from Accounts Payable.

There are opportunity costs related to using an outdated paper model, such as missed early payment discounts, decreased cash cycles and expertise that cannot be reallocated and refocused.

Systems Interoperability Creates Value

Aberdeen also found that businesses adopting electronic channels have been able to achieve a 16-percent decrease in AR processing costs and a 14-percent decrease in AP costs, year over year. In a tight economy, these are numbers that companies should not ignore.

The payments report also shows the value that systems interoperability with electronic payment networks has for both buyers and suppliers. This interoperability is critical toward achieving three major payments objectives for every business: Improving cash flow, reducing costs and maximizing the value of the enterprise resource planning (ERP) environment.

Aberdeen identified two main pressures creating the need for improved payments processing:

- Corporate mandate to reduce overall payment transaction costs, such as staff and processing (65 percent); and
- Stakeholder demand for improved operational efficiency, such as reduced reliance on paper documents (47 percent).

According to Aberdeen, 50 percent of best-in-class companies integrate their electronic payment solutions with their accounting, ERP or other financial systems. At the same time, 39 percent of best-in-class companies identify a lack of integration between electronic payments and accounting systems as a barrier to increased electronic payments.

Other Considerations

Beyond all the direct benefits detailed above, a transition to a more secure and efficient electronic payment model can reap a host of hidden savings, including the often overlooked costs associated with long-term storage (both on-site and off-site) of paper checks. Bank fees and reissuance fees for physical checks can also add up.

Other unaccounted for costs are associated with productivity and efficiency. Examples include data processing errors, time consumption, duplicate work, investigation of errors, reprocessing payments and missed deadlines. Lack of visibility regarding audit issues is another risk.

There are also opportunity costs related to using an outdated paper model, such as missed early payment discounts, decreased cash cycles (the cost of not knowing outstanding invoices) and, more importantly, expertise that cannot be reallocated and refocused in other areas of the business.

This economy has shown that savvy chief financial officers must "see beyond the numbers" and understand the intrinsic value of using a force multiplier such as electronic payments.

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