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## Lessons for AP from the Manufacturing Shop Floor

# Digital transformation is for more than the shop floor

Your ability to compete in the manufacturing industry is closely tied to the effectiveness of your digital transformation efforts. Your shop floor has probably seen the most extensive changes as a result of your business's drive to:

- ✔ Reduce costs
- ✔ Improve cash flow
- ✔ Increase efficiency and productivity
- ✔ Automate and streamline processes
- ✔ Identify and remove bottlenecks
- ✔ Gain end-to-end visibility
- ✔ Achieve greater operational control
- ✔ Turn data into insights
- ✔ Improve decision-making capabilities
- ✔ Reduce unnecessary risks
- ✔ Strengthen supplier relations
- ✔ Scale without increasing headcount
- ✔ Leverage smarter outsourcing
- ✔ Improve quality

**But consider:** aren't those the same goals you have for your Accounts Payable (AP) operations across the entire invoice-to-pay process?

Controllers, finance executives, and CFOs across the manufacturing industry are answering that question with a resounding "yes!" They are frustrated with invoice-to-pay processes that stand in stark contrast with shop floors that have undergone Industry 4.0 transformation. Most likely, you are frustrated, too.

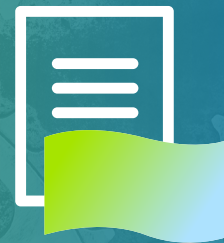


**60%**



**of finance leaders**  
say Accounts Payable is the #1  
most inefficient component of their  
manufacturing company's operations<sup>1</sup>

**73%**



**of manufacturing CFOs**  
report that optimizing AP processes is  
their top focus for digitization efforts<sup>2</sup>

# AP obstacles to business objectives

Whereas shop floors are now characterized by the Industrial Internet of Things (IIoT), smart manufacturing, intelligent automation, and the like, AP is still plagued by:

- ! Manual processes that are slow, costly, and error-prone
- ! A heavy reliance on paper checks to pay suppliers
- ! Lack of visibility into invoices and payments
- ! Late payments and missed early payment discounts
- ! Difficulties integrating with ERPs and/or banks
- ! Struggles to keep up with AP processing volume

These issues seriously impact your ability as a finance executive to deliver on key business objectives. For example:

- ? **How can you scale AP operations as your business grows, all without increasing headcount?**
- ? **How can you control costs with a complex, global supplier network if you lack visibility?**
- ? **How can you improve cash flow when you lack the flexibility to pay suppliers on an optimal timetable?**
- ? **How can you prevent fraud when invoice-to-pay processes are riddled with vulnerabilities?**



To create business value from your invoice-to-pay process that will help you achieve your strategic goals, consider these **8 lessons for AP from the manufacturing shop floor.**

## LESSON 1

## TAKE A HOLISTIC APPROACH TO OPTIMIZATION

Effective digital transformation on the shop floor is never piecemeal. Manufacturing companies that implement a new process here or a point solution there without an overall plan in place rarely, if ever, achieve their business objectives. Real transformation – and all the benefits it brings – occurs when optimization is approached from an end-to-end perspective. It may be executed in stages, but the strategy is holistic.

Digital transformation of the invoice-to-payment process works the same way. Envision what “the best of the best” would look like for AP and plan toward that end. A holistic strategy for AP will include:

- ✓ **Invoice automation** that integrates seamlessly with your ERP to improve operational efficiency, eliminate manual labor, and reduce costs
- ✓ **Payment services** that handle all payment types and facilitate the shift from check payments to ACH and virtual card
- ✓ **Vendor enablement** to improve invoice tracking, deliver value to suppliers, and strengthen supplier relationships
- ✓ **Security measures** that reduce the risk of fraud by identifying anomalies, stopping unauthorized movement of funds, and maintaining sensitive supplier bank information securely

A holistic invoice-to-pay approach leads to the best possible digital transformation.

# IMPLEMENT END-TO-END AUTOMATION

Automation on the shop floor dramatically increases efficiency, scalability, visibility, and quality. It does the same for AP, completely transforming your operations.



## Efficiency

By replacing labor-intensive processes with an automated workflow, AP processing occurs in a fraction of the time due to more efficient steps. That includes automated matching of invoices to POs, elimination of manual data entry into back-end systems, electronic approval routing, and sending of digital payments to vendors.



## Visibility

Automation provides complete visibility at every step of the invoice-to-pay process. This allows for faster exception handling, dispute resolution, and the ability to swiftly respond to supplier inquiries about payment status.



## Scalability

As long as AP activities must be done manually, the ability to scale is restricted to the number of employees you have on staff. Automation allows you to scale effectively without increasing headcount.



## Quality

With end-to-end automation of the invoice-to-pay process, data entry errors are eliminated, there is no risk of invoices being lost, no more checks lost in the mail, and late payment fees can be avoided.

**60%** of manufacturers say that time savings and improved productivity are the top drivers of AP process automation at their organizations<sup>3</sup>

## PURSUE COST SAVINGS AT EVERY POINT

On the shop floor, substantial cost savings are achieved by pursuing optimization in multiple areas, such as reducing material costs, practicing preventative maintenance, and modifying energy consumption. Similarly, cost savings across the AP process come in many forms. Here are the top three:

### 1. Replace physical checks with electronic ACH and virtual card payments

Checks come with a high price tag. The checks themselves must be purchased, manual labor is required for printing, processing and cutting the checks, and postage is necessary to mail the payment out. These expenditures combine for an average cost of \$5-\$9 per check. That mounts quickly for manufacturing companies that handle huge volumes of invoices each month. The good news is that you can save as much as \$4 per check by digitizing labor-intensive payment processes.<sup>4</sup>

### 2. Eliminate late payment fees

Without automation, only 48 percent of payments are made on time, but the rate of on-time payments jumps to a median of 90 percent when payables departments incorporate even a modest level of automation.<sup>5</sup> Eliminating late payment fees removes a needless expense and contributes to good relationships with vendors.

### 3. Take advantage of early-payment discounts

It takes 45% of AP departments between 6 days and 25 days to process a single invoice (from receipt to payment approval).<sup>6</sup> It is hard to capture early-payment discounts that some vendors make available under these conditions. By accelerating invoice processing and payment cycles with AP automation solutions, you can readily take advantage of early-payment discounts.



# 75%

**of manufacturing companies**  
say that converting from checks  
to ACH and virtual card payments  
is their top priority when it  
comes to automating AP<sup>7</sup>

## DRIVE REVENUE GENERATION

Digital transformation on the shop floor increases revenue by increasing the quantity and quality of manufactured goods. What you may not realize is that digital transformation can drive revenue generation from AP as well, which changes the paradigm of AP being exclusively a cost center.

By partnering with an AP automation solution provider that offers cash-back rebates on ACH and virtual card payments, you can literally make money on the money you spend. As your electronic payment transactions increase in volume, so does the amount you earn in cash rebates.

**When you combine cost savings with revenue generation, you get a clear picture of how AP digital transformation can create financial opportunity for your business:**

### How do I save and earn with ACH and virtual card?

In this example, XYZ Inc. has an annual AP spend of \$200 million. 28,000 checks per year are replaced with ACH and virtual card payments totaling \$140 million.

#### SAVE by cutting costs

28,000 checks  
x \$4 cost per check

**\$112,000**  
annual cost savings

&

#### EARN with premium ACH rebates

\$35 million premium ACH spend  
x 0.0045 rebate rate

**\$157,500**  
annual cash back rebates

&

#### EARN with card rebates

\$30 million card spend  
x 0.0135 rebate rate

**\$405,000**  
annual cash back rebates

By converting to ACH and virtual card payments,  
AP contributes nearly **\$675,000** of ROI per year.

## LESSON 5

## GENERATE BETTER DATA FOR BETTER DECISIONS

In AP, as on the shop floor, manual processes and fragmented systems create a “black box” where data cannot be seen, analyzed, and reported on. End-to-end AP automation provides complete, real-time visibility into that “black box,” putting complete and up-to-date AP data at your fingertips.

**With better data, you can make better decisions. For example, robust data and analytics will give you the insights you need to:**

- ✓ Improve cash flow analysis, cash planning, and liquidity management
- ✓ Forecast cash flow accurately
- ✓ Identify opportunities to optimize electronic payment usage
- ✓ Make agile decisions about keeping cash versus taking supplier discounts
- ✓ Gain leverage in negotiations with suppliers
- ✓ Assess spend liability and analyze spend patterns across locations
- ✓ Optimize working capital management
- ✓ Determine how to best fund growth, make investments, and finance mergers and acquisitions

**Better decisions benefit your entire enterprise – from AP, to the shop floor, to the C-suite.**

**55%** of finance executives cite improved AP visibility as a top priority and key benefit of automating accounts payable<sup>8</sup>

## REDUCE FRAUD RISKS AND STRENGTHEN SECURITY

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The digitization of the shop floor has introduced tremendous safeguards into manufacturing. For example, with automated monitoring that incorporates machine learning, alerts are sounded the moment issues arise, mitigating negative impact.

Digital transformation in AP likewise carries tremendous capacity to reduce fraud risks. First and foremost, simply by replacing checks – which are highly vulnerable to theft and fraud – with online payments, you substantially strengthen your security posture. Virtual cards, for instance, employ a unique 16-digit, randomly-generated number, expiration date, and CVV that can only be used once.

But that is just the beginning. An experienced AP solution partner will provide you with:

- **Bank information validation:** The right partner will use a variety of methods to validate supplier bank data, both during onboarding and any time there is a change in account details.
- **Vendor data protection:** Your solutions partner will hold sensitive supplier bank account information in an encrypted and secure network that adapts to evolving threats, eliminating your risk of a data breach.
- **Supplier scoring:** Vendors who are on a watch list, who have a bad credit history, or who show a pattern of invoice errors or duplicate payments will be flagged at onboarding for further evaluation.
- **Anomaly detection:** Artificial intelligence and machine learning can detect anomalies in invoice amount, timing, or frequency based on historic data and then flag invoices for inspection. Additionally, payment risk scores can be assigned to each invoice based on multiple criteria.

Three-way matching, multi-factor authentication, device fingerprinting, and user behavior monitoring are more ways digitization of the invoice-to-pay process effectively thwarts fraudsters. With robust security measures in place, you can focus your attention on strategic business initiatives.

# 64%

**of manufacturing organizations**  
have experienced a payment  
fraud attempt within the past year  
(with 14% having suffered more  
than one loss)<sup>9</sup>

## LESSON 7

## ATTRACT AND EMPOWER SKILLED WORKERS

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Digital transformation does not remove the need for skilled workers on the shop floor. On the contrary, automation eliminates tedious, low-level tasks that consume inordinate amounts of time, freeing skilled staff to engage in higher-value activities.

The same is true in AP. When your staff are no longer spending huge chunks of their time entering invoice data, handling exceptions, chasing down approvals, tracking down supplier bank information, preparing checks, and responding to supplier queries, they can focus their energies on the strategic initiatives that really drive business value.

For example, consider vendor management. Digital transformation of the invoice-to-pay process frees your AP team to collaborate with procurement to establish a robust supplier selection and review process, using insights gained from past and present payment data. Supplier scorecards can be developed that incorporate invoice-related metrics, such as matching errors or duplicate invoices. All this supplier data can be brought into play at contract renewal to actively negotiate better rates or payment terms.

**Other strategic areas include forecasting, cash management, auditing, negotiating better terms, and the like. With your AP function transformed from routine to strategic, you will maximize your current talent and attract skilled workers as your business grows.**

## TREAT YOUR VENDORS LIKE GOLD

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Your manufacturing company cannot exist without your network of suppliers, so you want to treat them as valued partners. Digital transformation of the invoice-to-pay process carries big benefits for your suppliers as you:

- **Expand payment options:** Using a preferred manner of payment – virtual card or ACH, for example – for each of your suppliers supports and improves these critical relationships.
- **Avoid late payments:** Your suppliers want to be paid on time, every time. With the efficiency, control, and visibility that AP transformation brings, you can deliver on that expectation.
- **Reduce fraud exposure:** Manual processes, physical checks, and legacy systems are fertile territory for hackers. Digitizing your AP function and payment methods dramatically reduces risk for your suppliers.
- **Provide rich remittance data:** With better data being generated from automated and transformed AP processes, you can provide greatly enhanced remittance data to your suppliers in their preferred formats, including CTX, custom AR files, and email.

**When you pay your suppliers on time using a preferred payment type and give them increased security and detailed data, your supplier relationships will grow stronger. From that vantage point, you will be able to negotiate better payment terms and advantageous discounts and deals, fueling your growth as a manufacturer.**

**58%** of Bottomline customers report improved vendor relationships as a result of using Paymode-X.

# A solid base for growth

You have seen digital transformation for operations provide a solid base for growth by compounding business value. The digital transformation of AP and the invoice-to-pay process will accomplish the same results. Operational efficiency, cost savings, revenue generation, better data, reduced risks, employee empowerment, and supplier management are all foundations on which you can build sustainable business value.

## So where does digital transformation of AP begin? It begins with Paymode-X, powered by Bottomline. With Paymode-X, you gain:

- ✓ **A trusted partner** with deep domain knowledge, decades of experience in payments, and cloud-based technology that is ready and easy to deploy.
- ✓ **A holistic approach** to digital transformation that can automate and optimize your complete end-to-end AP process.
- ✓ **An established network** of over 550,000 vendors accepting over \$400 billion in ACH and virtual card payments every year, all with zero fraud.
- ✓ **An ongoing approach** to vendor enablement. Nearly 50% of your vendors are likely already using Paymode-X to receive payments. And we'll continuously work on your behalf to recruit and onboard more.
- ✓ **A payment solution** that is relied upon by seven of the largest banks in America and which can handle all payment types for both domestic and international suppliers.

## Let your AP transformation begin.

Learn how Paymode-X can help you improve AP performance

[LEARN MORE](#)

Have questions about Paymode-X? Let us know how we can help.

[CONTACT US](#)

<sup>1</sup>Strategic Treasurer, 2022, <sup>2</sup>PYMNTS.com, 2021, <sup>3</sup>Strategic Treasurer, 2022, <sup>4</sup>Alite Group, 2021, <sup>5</sup>Institute of Finance and Management (IOFM) 2021, <sup>6</sup>Institute of Financial Operations (IFO), 2021, <sup>7</sup>Strategic Treasurer, 2022, <sup>8</sup>Ardent Partners, 2021, <sup>9</sup>Strategic Treasurer, 2022



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