PAYMENT

From Cost to Profit Center: Payments Technology and Your Back Office

ONLINE EXCLUSIVE

BY DAVID SCHNITT ON JUN 30, 2014

Over the past 10 years, payments technologies advanced at a rate few thought possible. Ten years ago, only the largest companies had the capacity to leverage the latest technologies to manage functions such as accounts payable (AP), while many others did not yet have the capabilities to implement efficiency-boosting technologies such as automation or electronic payments.

Fast-forward a decade later and today this landscape is changed considerably, as mid-size companies and even small firms can implement innovative technologies in a cost-effective manner. One of the most remarkable shifts I saw in the past few years were in companies' ability to process different forms of payments. A decade ago, everyone used paper checks, while today you're much more likely to see a successful mid-size company process a variety of payments using back office technology to support its operation.

Even so, there were—and still continue to be—numerous difficulties in companies' ability to adopt new payments technologies. For one, there's the simple barrier of economies of scale. While back-office technologies are more affordable, the cost of maintaining these systems prevented many mid-size companies from adopting the latest technologies because they can't operate them on a large scale like the Fortune 500s. Additionally, the cost of finance and accounting as a percentage of midsize companies' revenue is typically much higher than those of the larger firms. Lastly, there are an overwhelming number of payments solutions available to companies today. Even though payments technologies are now easier to implement, how can a chief financial officer (CFO) choose the right solution for the company among 15 competing vendors?

The most important difficulty today lays in what happens after a company chooses to implement automated payments solutions. Despite the promise to seamlessly integrate into existing processes, these solutions may actually cost companies more money to set up and maintain. In many cases, according to our own research and client experience, payment solutions generate a negative return on investment (ROI) for these companies because their back-office processes are inefficient and costly to maintain. Without overhauling back-office processes, it's almost impossible for a simple software solution to fix all the issues in the AP department, eliminating any savings the company would achieve by using the software. With the added challenge of economies of scale, many midsize firms typically spend double what a large company would to process their AP.

For example, one of our clients, a hotel, restaurant and nightlife company with 134 locations, was struggling to manage payments to vendors, invoice approvals and other AP-related processes across its large portfolio of venues. The AP and payments process it used wasn't efficient, management had poor visibility into the status of invoices, invoices were often paid late when they were delayed or lost at one of the venues, and management felt that it did not have enough control over the process. To help the company improve its processes, we conducted a thorough review and implemented an end-to-end solution, starting upstream in the AP process itself to determine where we could save the company the most money. On the technology side, we implemented a cloud-based system that allowed management to access and approve invoices in real time, even on their smartphones.

We also designed a comprehensive disbursement solution to allow for multiple types of payments to be processed, from electronic payments using virtual credit cards to Automated Clearing House (ACH), wires and good, old-fashioned printed checks. Another way we were able to help the hotel, restaurant and nightlife company is to give it better control and lower its risk by significantly reducing the need for petty cash. We did this by converting petty cash spending to credit cards that provided a rebate on spend, giving the company greater control over the amount and purpose for each transaction.

These are just a few of the ways companies who are struggling to manage their AP and payments processes can implement not only technology, but also sound solutions that can transform the back office. However, there are still more improvements to be made. Here are my predictions for where the payments industry is heading in the next five years:

1. Payments are finally beginning to convert from paper to virtual at a faster rate than conversion to other payments methods, and we see adoption continuing to increase.
2. While the payments world is getting more complex, payments technologies are increasingly easier to implement.
3. The U.S. catches up with the rest of the world with regard to virtual payments and becomes an innovator alongside other countries that expanded the possibilities of what mobile payments and other innovations can do.

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