



The Last Mile of ERP

**Payables Transformation Strategies**

# ERPs Are Maps Not Modes of Transportation

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In a growing business, ERPs are critical for tracking finance and accounting. They function as the system of record for collecting, storing, managing, and monitoring essential business data. But for accounts payable (AP), an ERP is more a map than a vehicle. ERPs are not designed for in-depth payables execution and process-heavy operations like payables, and as a result, AP is often backfilled with staff.

Although an ERP can create purchase orders and store invoices from suppliers, it does not manage the nuances in the payables operation to create a closed-loop process. That requires human beings to travel that last mile and back. These steps are time-consuming and labor-intensive. They also create gaps that lead to errors, both financially and legally.

ERPs have generally not addressed this in depth because it's not their core focus. AP is consistently ranked by financial executives as the single most time-consuming function in finance. Payables ends up being the last stretch that CFOs and controllers turn their attention to.



# The Demanding World of Payables

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- According to APQC, the median cost to process an invoice is \$5.83, but for the bottom 25 percent of mature finance teams, the cost is \$10.00 per invoice. Much of this is just the data entry aspects of invoice processes. It doesn't include the complete payables effort. High processing costs are due to:

## Complexity

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- Maintaining multiple banking / payment rails
- Dealing with unique payables requirements
- Diverse supplier population
- Global / cross-border factors—payment rails, regulatory compliance, FATCA rules, OFAC SDN
- Fraud controls and PO matching protocols
- Multiple-entity / multiple-subsidary structures

## Inefficiency

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- Collection and data entry of invoice details
- Manual interface with bank systems / payment processors
- Onboarding and communicating with suppliers
- Disconnected point tools (OCR, invoice / PO-matching, workflow, tax, payments, etc.)
- Manual chasing down of PO, invoice, and payment approvals
- Reconciliation of payment data

These are all areas that ERPs don't shield the organization from. As a result, many businesses choose to handle payables by adding headcount, which can be costly.



# Global Challenges

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According to PayStream Advisors, "Organizations experience the highest error rates when they have inconsistent processes for global payments or are using separate banking partners to manage the process." The biggest issues to cross-border payments are not about the payments themselves, but about the surrounding operations of global payables:

- Collecting the proper payables information during supplier onboarding, including tax details, payment details, and communication information
- Reducing the risks and costs of sending checks and wire transfers (AFP reported wire fraud increased 11% to 46%, while 75% of businesses experience check fraud)
- Addressing separate tracks for different banks and payment methods
- Handling different processes for domestic and international entities (e.g. currency conversion, local remittance, tax compliance)
- Ensuring payees are legal to pay (e.g. OFAC SDN, EU, HMC)

Increasing payables workload often requires adding headcount. Yet, higher error rates occur due to added complexities (e.g. over 26,000 payment rules to achieve global coverage to each country)



# Exposures to Risk

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To reduce the cost of payables operations, some organizations hire relatively inexperienced staff to perform tasks such as collecting supplier-payment information, keying in and matching invoices, collecting tax documents, and mailing checks or paying through a bank portal. This can create an audit-inducing quagmire. Some issues finance needs to be ready for include:

- Meeting FATCA tax regulations in the face of increasing IRS audit activity (e.g. 3,000 new examiners, up to 30% fines for the payer)
- Gaps in financial controls and PO/invoice/payment approvals within and across subsidiaries
- Poor data hygiene leading to late or duplicate payments
- Exposure of bank accounts to check and wire fraud

Any time someone has access to sensitive supplier information and company funds, the organization is exposed.



# Lost Opportunities

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If the last mile of ERP is riddled with potholes and obstructions, organizations may miss out on strategic ventures and initiatives that can truly transform their payables. For example:

- Becoming cost-neutral or revenue-generating
- Building a scalable operation that handles growth of the business
- Expanding across international boundaries
- Consolidating back-office processes across multiple entities
- Negotiating longer payment terms (e.g. Net 60)
- Focusing on “hard finance” vs. “payment runs”



# Transforming Payables

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A successful payables transformation involves the following complementary endeavors:

- Adopting a strategic payables directive
- Modernizing payables technology

A primary goal of a strategic payables directive should be to include the payables function in the overall corporate strategy as the organization grows rather than as an afterthought. This involves establishing longer payment terms without sacrificing the relationship with suppliers, ensuring corporate compliance across all entities, and taking a lean approach to its operations that is designed to support ongoing expansion, including international. This requires a culture shift in finance, recognizing that payables is a key enabler of strategic finance.

Modernizing payables technology looks to equip the operation with tools that are as automated as possible so that the organization is less focused on “payment runs” and more focused on the strategic hard finance required to support the directive.



# The Holistic Approach to Automating and Future-Proofing

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Conquering the last mile of ERP from a payables perspective takes a holistic, future-focused approach. The payables process is in reality a dozen different processes interdependent on each other. Rather than continuing to piece together one widget or tool—only to have to deal with replacing it later—finance operations need to strive for self-contained solutions that work cohesively. Payables departments need to have an integrated philosophy that encompasses all of the following:

- Intelligent supplier onboarding
- Identity and tax data collection and validation
- Supplier payment / bank account detail collection and validation
- Invoice and purchase order workflow and processing
- Payment remittance (domestic and cross-border)
- Payment reconciliation across payment methods and entities
- Supplier communications



# The Last Mile Doesn't Have to Be the Last Step

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If your organization has not adopted an ERP system but is looking to add one, you may think that holding off on payables transformation would make sense until the core ERP is in place. This is not necessarily true.

Waiting to deploy solutions until after the ERP is implemented may end up costing your organization more in the long run, because ERP implementations take time. This delays the value and benefits that might be achieved through other modernization solutions—such as payables automation—that are outside the ERP implementation.

In fact, implementing the right payables automation solution will clean your vendor master record and AP reporting data, which can help ensure a smoother, more successful ERP implementation.

**The key is to perform a value-based return on investment (ROI) analysis for your payables transformation project. Be sure to use real-spend data to make a proper assessment.**





## Additional Resources

The last mile can seem like the most difficult one because it takes a real commitment to achieve strategic excellence. Here are some additional resources that can inform your journey:

### AP Automation ROI

Get a Free Custom Payables Assessment

### IOFM Early Payments

How Organizations Can Become AP-Free

## What Tipalti Can Do for You

Tipalti manages your payables process with technology that eliminates more than 80% of the manual effort. We provide a truly global, multi-entity solution that streamlines the end-to-end AP workflow, including tax data collection and verification, automated supply chain financing, self-service supplier onboarding and management, OCR-based invoice processing, global remittance, and AP financial reporting and controls.

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