
The True Costs of Invoicing and Payment

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Fidesic Corporation



Executive Summary

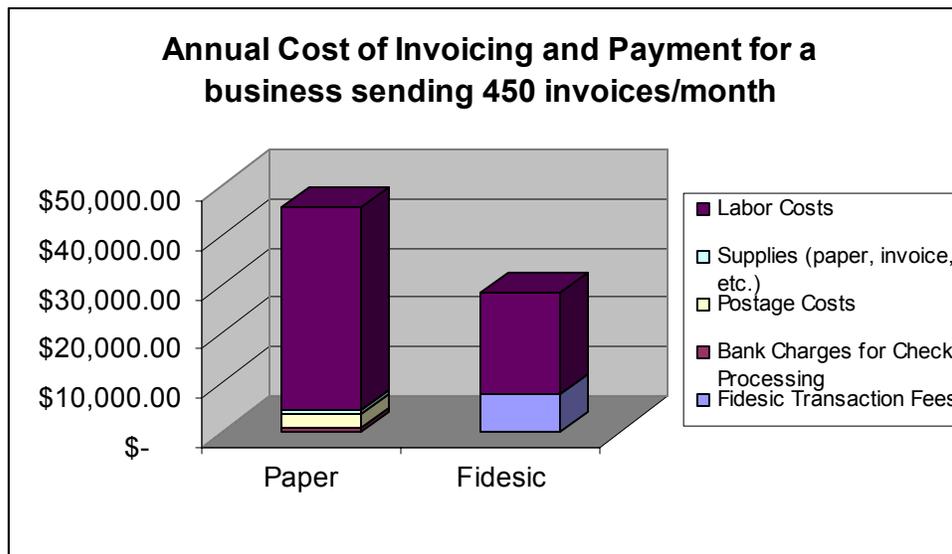
Receiving payment by paper check is overwhelmingly the most popular payment method today for non-retail businesses, representing roughly 80% of all invoices paid.¹ Because invoicing and receiving payments using paper checks is labor intensive, the costs to a business to process these payments is significant. **For example, the total cost of invoicing for a business that sends 450 invoices per month was calculated at \$45,562 per year.**²

Unfortunately, many businesses calculate only the hard costs they incur to send an invoice—such as materials and postage. By doing this, **they ignore over 90% of the total cost of invoicing**—labor costs.

When you look at the progress of financial departments in making their operations run more efficiently, it is surprising that they still accept the inefficiencies of paper-based invoicing and payment, especially since the invoice is generated from the vendor's accounting software and the payment is reconciled with the payer's accounting software. Further, businesses of all sizes have incorporated the Internet into their day-to-day operations to communicate efficiently with existing customers and suppliers via email.

By integrating with accounting applications like Microsoft Great Plains Dynamics and eEnterprise, the Fidesic ePayments Service makes sending electronic invoices and payments a natural extension of existing processes. **By migrating to electronic invoicing and payment, businesses can cut the labor required to send an invoice and process a payment by almost 50%.**³

Reducing operating costs can have an exponential effect on profit. **The Gartner Group estimates that a 5% reduction in operating costs can have the same impact as a 30% increase in sales.**



The Cost of Getting Paid

When businesses look at what it costs them to collect payments, they rarely look beyond the cost of postage and the paper the invoice is printed on, ignoring the labor that goes into the preparation and processing of each invoice, which includes:

- Preparing invoices
- Resolving disputes
- Processing the resulting payment
- Matching orders
- Reconciling bank statements
- Correcting miskeyed data
- Making bank deposits
- Pursuing delinquent accounts

This is where the true cost of invoicing lies. Due to the sheer volume of labor required, **over 90% of the total cost of invoicing comes from labor.**

The following table provides insight into the amount of time it takes the average business to send an invoice and receive the resulting payment.

Task	Hours per Month
Preparing invoices	77.15
Recording receivables and reconciling customer accounts and bank statements	122.34
Making bank deposits	30.58
Pursuing delinquencies	29.90
TOTAL	259.97

Source: Gómez, 2000

These numbers are based on 450 invoices sent per month

The entire process requires 260 hours of labor each month, the equivalent of 1.5 full time employees. A business that sends 450 invoices per month incurs an annual cost of approximately \$45,000 to send out invoices and process the resulting payments, \$41,000 of which is labor.

The Annual Cost of Invoicing

Number of invoices sent	450
Hourly wage to perform these tasks	\$13.22
Hours of labor (per month) <i>This number includes the time spent: preparing and sending invoices, reconciling receivables, reconciling bank statements, making bank deposits and pursuing delinquencies.</i>	260
Annual Costs	
Labor	\$41,241.60
Supplies (paper, invoice, envelope, etc)	\$594.00
Postage costs (at \$0.34 per mailing)	\$2,808.00
Bank charges for check processing	\$918.00
Total Annual Cost of Invoicing	\$45,561.60
Cost Per Invoice	\$8.44
Labor Per Invoice	34.8 minutes

In addition to cost savings, businesses can reallocate the internal resources they save on sending invoices and receiving payments to other tasks, or avoid hiring additional staff to handle increased volumes of invoices and payments as their company grows.

Disputed Invoices—Complicated and Costly

The invoice-to-payment cycle is not always as simple as sending an invoice and receiving the resulting payment. Industry analysts estimate that anywhere from 10% to 40% of all business invoices are disputed.⁴

Disputes not only slow down payments, thus increasing Days Sales Outstanding, they dramatically increase the total cost of invoicing. The Gartner Group estimates that dispute settlement costs an average of \$20 per invoice.⁵ A second analyst puts the cost of a dispute at \$10.76 per invoice, which multiplies the cost per invoice by almost 4 compared to an undisputed invoice.

These are the costs of a dispute to the payee—often the cost to the payer is even higher.

How Fidesic Reduces these Costs

The Fidesic ePayment Service empowers businesses of all sizes with technology that was previously available only to large companies. By integrating with the way businesses use the Internet and the applications they use to run their business, sending invoices and receiving payments via Fidesic is a natural extension of processes that are already in place. In short, adopting Fidesic does not require wholesale change or a significant upfront investment.

Because companies that implement the Fidesic ePayment Service can perform many of the invoicing and payment tasks electronically, the number of hours spent on some tasks can be eliminated. For example, you can save the time spent making bank deposits because all payments are electronically deposited in the bank account of the payee.

For other tasks, the time and cost is reduced dramatically. The time spent preparing invoices is reduced because batches of invoices are sent electronically to the Fidesic Service Center for distribution, meaning your own staff is not required to stuff and stamp envelopes. Dispute resolution costs are cut in half.⁶ The reconciliation process is simplified as well because transactions performed using Fidesic can be downloaded to financial software such as Microsoft Great Plains, Intuit QuickBooks, and Peachtree Complete Accounting, eliminating the time and errors of manual reconciliation.

The Annual Cost of Invoicing Using the Fidesic ePayments Service

Number of Invoices Sent	450
Hourly Wage of Person Performing these tasks	\$13.22
Hours of Labor (per month, assuming 50% reduction in labor vs. paper)	130
Costs	
Cost of Labor	\$3437.00
Supplies (Paper, invoice, envelope, etc) (per month)	\$0.00
Postage Costs (per month)	\$0.00
Bank charges for check processing (per month)	\$0.00
Fidesic Transaction Fees	\$7700.00
TOTAL ANNUAL COST OF RECEIVING PAYMENT	\$28,318.00
COST PER INVOICE	\$5.24
TIME PER INVOICE	17.4 minutes

The migration to Fidesic can be gradual. A gradual process enables your customers to migrate at their own pace and does not require you to set up separate processes for paper and electronic invoices. You simply upload your batch of invoices to Fidesic and they are distributed via the appropriate method—email, fax, or U.S. mail.

Summary

In the current economy, every dollar counts. Businesses of all sizes and types are evaluating their current practices, looking for ways to increase their bottom line profits. One sure way to increase profits is to operate your business more efficiently. Sometimes a minor shift in how you do things can have a major impact on the bottom line.

The Gartner Group estimates that a 5% reduction in operating costs has the same P&L impact as a 30% increase in sales.

Simply by replacing a paper-based process with electronic methods, businesses can operate more effectively and improve their profit margins, as well as benefit from better communication with their customers, better information about their cash flow, and reduced Days Sales Outstanding.

By seeking to meet the needs of small and mid-sized businesses through a thorough understanding of how they use computer applications in their business practices, Fidesic provides the most comprehensive and integrated electronic invoicing solutions for customers of Microsoft Great Plains, Intuit QuickBooks, and Peachtree Complete Accounting.

¹ Gomez, “Reducing Payment Transaction Costs—Small Enterprise Cost of Payment Transactions Study,” September 2000.

² Component cost data, such as labor hours and labor cost, are from the Gomez study, “Reducing Payment Transaction Costs.”

³ Celent Communications. Presentation by Ariana—Michele Moore at the Strategic Resource Institute “B2B Electronic Bill Payment and Presentment” Conference, July 2001.

⁴ Analyst estimates are from Gartner and JP Morgan.

⁵ Gartner, “The Redesign of the B2B Order to Cash Process.”

⁶ Gartner, “The Redesign of the B2B Order to Cash Process.”