

Finexio

**The Payment
Revolution:
Achieving
Better AP for
Manufacturing**





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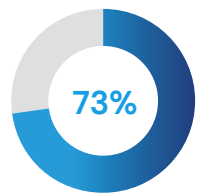
Introduction



As the external challenges facing manufacturing rise, focus on streamlining internal AP functions by eliminating manual processes and payments to propel growth

For manufacturing executives, the three plus years since COVID-19 hit have been a roller coaster of crises, shortages and disruptions. While COVID-19 is behind them, manufacturing executives voice apprehension regarding lingering supply chain, inflation, labor shortage issues as well as rising interest rates and the increasing odds of an economic recession.

This environment demands constant agility, especially for firms seeking growth. With so many external factors out of their control, executives seek opportunities for process efficiencies and cost cutting that can provide a path forward. This desire coincides with a large shift occurring as a result of the Fourth Industrial Revolution, a digital transformation that is freeing workers from manual tasks and processes. ⁽¹⁾



73% of leading manufacturers surveyed agree digital transformation is key to achieving business goals ⁽²⁾

Much is at stake in the ongoing search for digital evolution. Manufacturers that succeed in their efforts can accelerate their growth curves, while those who are unsuccessful will potentially find themselves hindered by legacy systems, manual processes and an out-of-touch workforce. This dynamic raises the stakes for manufacturers in terms of decisions of where, how and when to streamline and digitize.

This sweet spot can be found within functions that can be quickly improved while at the same time offering the potential significant cost savings. That means if you're a manufacturing executive, you're likely to identify the accounts payable (AP) function as a prime target. That's because outsourcing managed payment operations offers the potential to free up to 84 percent of your AP staff's time spent on tasks related to supplier payments.

Not only that, but the best outsourced AP solutions create a new stream of revenue for your manufacturing company, while helping your suppliers with their cash flow needs. Ultimately, a solution that maximizes your staff's time and energy, cuts cost and facilitates a new revenue stream positions you to optimize growth across your manufacturing organization.

1. "The Fourth Industrial Revolution: what it means, how to respond," The World Economic Forum, Jan. 14, 2016, <https://www.weforum.org/agenda/2016/01/the-fourth-industrial-revolution-what-it-means-and-how-to-respond/>

2. "The State of Digital Manufacturing 2023," Tacton.com, 2023, <https://www2.tacton.com/2023-digital-manufacturing-survey>

Increasing Global Challenges

Just when you thought that the U.S. economy might survive the rising rate environment without a recession, the failure of two banks in rapid succession in March 2023 immediately darkened the economic outlook.⁽³⁾ The financial contagion spread across the globe, as USB rescued Credit Suisse in a shotgun marriage brokered by the Swiss government.⁽⁴⁾

In response, the U.S. Federal Reserve Board increased interest rates by .25 percent, instead of the .5 rate increase expected before the banking crisis.⁽⁵⁾ While rising interest rates eroded some areas of the economy—including the technology industry and the housing market—the banking crisis may succeed in precipitating a recession.

There's no doubt, however, that rising rates—and poor regulatory supervision—caused the banking crisis. While rising rates overtly may not cause a recession, turmoil in the banking system may very well lead to one. That's because banking system instability—or even the perception of banking system instability—can lead banks to cut back on lending. When lending standards tighten amid already rising rates, this can spell trouble for manufacturers needing capital to expand. In fact, economists already

expect a pullback in bank lending to dampen economic growth.⁽⁶⁾ Not only would a recession create tighter lending conditions, it would also be likely to dampen manufacturing demand.

The Fed is walking a narrow tightrope between supporting the banking system with liquidity and fighting inflation with higher rates. While inflation is declining slightly, it is still significantly above the Fed's target of 2 percent. After peaking at 9.1 percent in June 2023, inflation fell to 6 percent in February 2023.⁽⁷⁾

“Inflation remains too high, and the labor market continues to be very tight. Reducing inflation is likely to require a period of below-trend growth and some softening in labor market conditions.”

Jerome Powell, Fed Chairman⁽⁸⁾

3. “Americans’ faith in banks hit low after failures, says AP-NORC poll,” National Public Radio, March 22, 2023, <https://www.pbs.org/newshour/economy/americans-faith-in-banks-hit-low-after-failures-says-ap-norc-poll>
4. “USB is buying Credit Suisse in bid to halt banking crisis,” CNN.com, March 20, 2023, <https://www.cnn.com/2023/03/19/business/credit-suisse-ubs-rescue/index.html>
5. “Fed Raises Rates Amid Banking Turmoil,” The New York Times, March 24, 2023, <https://www.nytimes.com/live/2023/03/22/business/fed-interest-rates>
6. “A recession could come sooner on cooling bank lending,” CNBC.com, March 15, 2023, <https://www.cnbc.com/2023/03/15/a-recession-could-come-sooner-on-cooling-bank-lending-.html>
7. “Here’s the inflation breakdown for December 2022—in one chart,” CNBC.com, Jan. 12, 2023, <https://www.cnbc.com/2023/01/12/heres-the-inflation-breakdown-for-december-2022-in-one-chart.html>
8. “The Fed’s Ninth Straight Rate Hike Comes After Banking Chaos. Experts Unpack What’s Next,” CNET.com, March 23, <https://www.cnet.com/personal-finance/banking/the-feds-ninth-straight-rate-hike-comes-after-banking-chaos-experts-unpack-whats-next/>

Transforming Technology and Work

The extremely tight labor market has created a dynamic in which many manufacturers are experiencing difficult labor shortages, despite increasing wages.⁽⁹⁾ A survey of manufacturing workers reveals that more than half of manufacturing employees plan to leave their jobs in 2023 in search of increased paid time off and high-tech facilities.⁽¹⁰⁾ Deloitte also predicts a manufacturing skilled labor shortage of 2.1 million jobs by 2030.⁽¹¹⁾

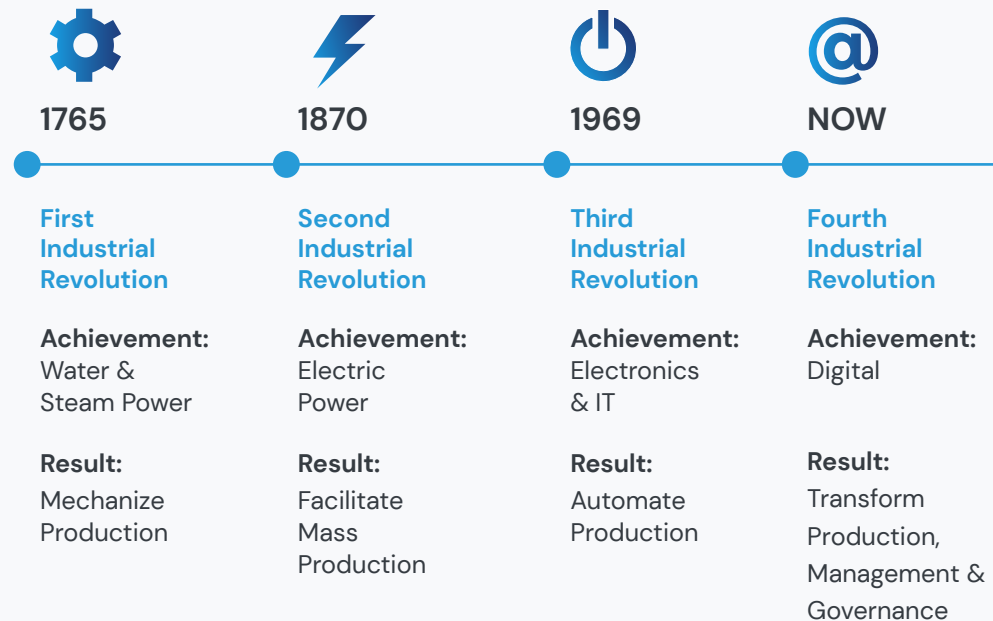
The disruption the industry and the economy has experienced over the last three years doesn't look like it's going to abate anytime soon. That's why it's incumbent upon you and your colleagues to take steps that are under your control to create the necessary agility and flexibility to ride out whatever turmoil is up next. Disruption is the new normal. The organizations that thrive in disruptive times are those that are extremely adaptive—make sure yours is one of them.

Every challenge also represents an opportunity. Today's opportunities are unprecedented. That's because the world is in the midst of one of the most transformative periods in history—the fourth industrial revolution. The fourth industrial revolution follows three earlier revolutions that created the basis upon which modern production rests as seen in Figure 1.

Figure 1:
Leverage the Fourth Industrial Revolution

Each industrial revolution has brought progress greater than the last. The sheer scale, scope and complexity of the Fourth Industrial Revolution offers unparalleled opportunity for manufacturers.

The Fourth Industrial Revolution



Sources: World Economic Forum ⁽¹²⁾, Institute of Entrepreneurship Development ⁽¹³⁾

9. "2022 Labor and Employment Outlook for Manufacturers," The National Law Review, Jan. 24, 2022, <https://www.natlawreview.com/article/2022-labor-and-employment-outlook-manufacturers>

10. "Over Half of US Manufacturing Employees Plan to Leave Their Jobs in 2023: Survey," IndustryWeek.com, Feb. 27, 2023, <https://www.industryweek.com/talent/recruiting-retention/article/21260891/over-half-of-us-manufacturing-employees-plan-to-leave-their-jobs-in-2023-survey>

11. "2022 manufacturing industry outlook," Deloitte, March 23, 2022, <https://www2.deloitte.com/us/en/pages/energy-and-resources/articles/manufacturing-industry-outlook.html>

12. "The Fourth Industrial Revolution: what it means, how to respond," World Economic Forum, Jan. 14, 2016, <https://www.weforum.org/agenda/2016/01/the-fourth-industrial-revolution-what-it-means-and-how-to-respond/>

13. "The 4 Industrial Revolutions," Institute of Entrepreneurship Development, June 30, 2019, <https://ied.eu/project-updates/the-4-industrial-revolutions/>

The current industrial revolution isn't merely a continuation of the third industrial revolution but rather a distinct era of its own due to three characteristics identified by the World Economic Forum: velocity, scope and systems impact ⁽¹⁴⁾. "The speed of current breakthroughs has no historical precedent. When compared with previous industrial revolutions, the Fourth is evolving at an exponential rather than a linear pace. Moreover, it is disrupting almost every industry in every country. And the breadth and depth of these changes herald the transformation of entire systems of production, management and governance," according to the World Economic Forum. ⁽¹⁵⁾

As this transformation evolves, industries, workflows and processes will be altered beyond recognition. Your challenge is to seize the moment by identifying how to turn the challenges this era poses into opportunities. In this high-speed environment, there's no time to waste. You're likely to continue to live and work in conditions characterized by a confluence of disruption. That means consistent upheaval: not just inflation, but inflation, geopolitical conflict, banking crises and supply chain chaos. In other words, the world you're living in today won't stop — it will merely mutate into a different set of challenges.

Also known as Industry 4.0, the Fourth Industrial Revolution is especially significant for manufacturers. Leveraging automation and the Internet of Things, manufacturers are increasingly driving innovation through smart machines and smart factories. ⁽¹⁶⁾ By strategically integrating cloud computing, data analytics, artificial intelligence and machine learning throughout the product development, manufacturing and distribution processes, organizations are building a foundation for better decision making, value creation and top and bottom-line growth. ⁽¹⁷⁾

14. "The Fourth Industrial Revolution: what it means, how to respond," The World Economic Forum, Jan. 14, 2016, <https://www.weforum.org/agenda/2016/01/the-fourth-industrial-revolution-what-it-means-and-how-to-respond/>

15. "The Fourth Industrial Revolution: what it means, how to respond," The World Economic Forum, Jan. 14, 2016, <https://www.weforum.org/agenda/2016/01/the-fourth-industrial-revolution-what-it-means-and-how-to-respond/>

16. "What Is Industry 4.0?" IBM, <https://www.ibm.com/topics/industry-4-0>

17. "What Is Industry 4.0?" IBM, <https://www.ibm.com/topics/industry-4-0>

McKinsey identifies four crucial components of Industry 4.0: ⁽¹⁸⁾

- **Connectivity, data and computational power**
- **Analytics and intelligence**
- **Human-machine interaction**
- **Advanced engineering**

After three years of starts and stops due to pandemic variants, opportunities for fresh approaches abound, both on and off the factory floor. No one-size fits all approach exists. "Early successes have shown the companies start on their industry 4.0 journey in a small way and then scale quickly — if they commit to Industry 4.0 transformation in line with their business environment and their strategic objectives," according to McKinsey. ⁽¹⁹⁾

Today is the moment to put all your workflows and processes under a microscope to determine how you can utilize the innovations of the Fourth Industrial Revolution to realize improvements, cut costs and improve growth.

Because neither technology, industry nor your company can remain in stasis. At what point will Industry 4.0 turn into 5.0? Whenever that happens, you need to be ready.

18. "Industry 4.0: Reimagining manufacturing operations after COVID-19," McKinsey, July 29, 2020, <https://www.mckinsey.com/business-functions/operations/our-insights/industry-40-reimagining-manufacturing-operations-after-covid-19>

19. "Industry 4.0: Reimagining manufacturing operations after COVID-19," McKinsey, July 29, 2020, <https://www.mckinsey.com/business-functions/operations/our-insights/industry-40-reimagining-manufacturing-operations-after-covid-19>

Identifying Achievable Targets

Most manufacturing organizations are target rich environments for leveraging the advances of the Fourth Industrial Revolution for tangible improvements on and off the factory floor. As an industry, manufacturing is eager to leverage technological tools for efficiency and profitability. Manufacturing executives surveyed by Alithya reported the following technological priorities: ⁽²⁰⁾

- Data analytics and dashboards
- Customer relationship management
- Internet of Things and Machine
- Apps
- Portals
- Digital Twin

Within this large opportunity set, you need to be strategic when deciding what areas will yield the biggest return for your investment. As Alithya puts it: “Technology is ever evolving, with constant iterations and innovations that create opportunities for manufacturers to reimagine their products and operations. The question is, which technologies justify the investment? Digital transformation may help an organization gain a competitive edge, but in the end, technology is a tool that helps companies follow their business strategies — not a strategy in and of itself.” ⁽²¹⁾

The right opportunity for one organization could represent a disaster in the making for another. That’s why it makes sense to use your existing process improvement system to identify suitable and realistic targets for enhancing efficiency and productivity. Whether you employ Kaizen, Six Sigma, SIPOC, Value Stream Mapping or Total Quality Management – or a different system altogether – is less important than your consistent application of the methodology that works within your system. ⁽²²⁾



20. “2021 Manufacturing Trends,” Alithya, 2021, <https://www.alithya.com/hubfs/Microsoft/Alithya%20Manufacturing%20Survey%202021-1.pdf>

21. “2021 Manufacturing Trends,” Alithya, 2021, <https://www.alithya.com/hubfs/Microsoft/Alithya%20Manufacturing%20Survey%202021-1.pdf>

22. “What is process improvement? A business methodology for efficiency and productivity,” CIO Magazine, Aug. 27, 2019, <https://www.cio.com/article/220557/what-is-process-improvement-a-business-methodology-for-efficiency-and-productivity.html>

AP Systems: A Prime Target

**Figure 2:
Obstacles Stymie A/P Efficiencies**

To achieve A/P efficiencies, manufacturers must overcome a number of obstacles that mire this function in manual and outdated processes.

The TK Leading A/P Challenges

Challenge	Icon	Impact	Solution
Manual Processes	Paper Check	Increases Expenses	Automated Processes
Outdated Systems	Mainframe Computer	Wastes Time	Updated Systems
Lack of Integration	Crossed Wires	Creates Work	Integrated Systems
Too Many Payment Relationships	Bank Buildings	Adds Complexity	Payments as a Service Provider
Redundant Processes	Arrows in a Circle	Produces Frustration	Streamlined Processes

Within this target-rich environment of potential process improvements the AP function stands out as an area where minimal investment can yield significant results. Ironically, while manufacturers are known for their passion for efficiency, their AP departments struggle with inefficient processes and payment methods. The chief culprits include antiquated systems that pay suppliers and contractors via paper checks, which are also associated with poorly integrated legacy systems.

In fact, 60 percent of manufacturers believe that AP is the single most inefficient component within their organization's operations.⁽²³⁾ Why? Because the AP function has not caught up with many of the technological efficiencies that have been embraced within core manufacturing processes.

A typical manufacturing operation contracts with thousands of suppliers. Auto manufacturers, for example, have approximately 250 tier one suppliers.⁽²⁴⁾ However, for auto manufacturers to meet all their needs across the value chain, that number expands to 18,000, according to McKinsey.⁽²⁵⁾ The story is similar for aerospace companies, which typically work with an average of 200 tier-one suppliers and a total of 12,000 across every tier.⁽²⁶⁾

As manufacturing continues to embrace technology and seeks to adapt to supply chain disruptions, the supplier picture only gets more complex. While bringing additional suppliers on board can help solve manufacturing problems, adding suppliers will only increase the burden on overwhelmed AP departments that rely on outdated systems and processes.

23. "It's About Time to Re-engineer Payments in Manufacturing AP," Bottomline, 2022, <https://www.bottomline.com/us/resources/its-about-time-re-engineer-payments-manufacturing-ap>

24. "Reimagining industrial supply chains," McKinsey, Aug. 11, 2020, <https://www.mckinsey.com/industries/advanced-electronics/our-insights/reimagining-industrial-supply-chains>

25. "Reimagining industrial supply chains," McKinsey, Aug. 11, 2020, <https://www.mckinsey.com/industries/advanced-electronics/our-insights/reimagining-industrial-supply-chains>

26. "Reimagining industrial supply chains," McKinsey, Aug. 11, 2020, <https://www.mckinsey.com/industries/advanced-electronics/our-insights/reimagining-industrial-supply-chains>

For these AP professionals, an expanding number of suppliers means more time spent on manual, repetitive tasks that leave little time and energy for value-added activities such as analyzing data, collaborating with stakeholders and building supplier relationships. To facilitate payments and comply with tax laws, AP professionals must track, collect and validate tax forms and banking details for each supplier as well as print and mail checks. In addition, they must respond to supplier inquiries about the status of payments, manage banking relationships and reconcile statements for each type of payment method employed by their organization to disperse funds.

Working with outdated systems that don't play well together only aggravates the situation, as AP professionals must then waste time by engaging in manual reconciliation to get supplier paid. In addition, many manufacturing organizations suffer from too many payment relationships, which complicates their cash flow picture, exacerbating the manual processes dilemma.

Then there's the problem of slow payments that undermine your ability to maximize your cash flow. Consider the time wasted printing checks and remittance details, obtaining approvals, stuffing checks into envelopes, only for the checks to then enter the maw of the U.S. Postal Service. Even you outsource check disbursement, checks are still expensive and subject to fraud.

Paying by check risks late payments and late payment fees, as well as creating a lack of visibility into cash flow. Finally, you can't control the timing of payments when using outdated methods, which can further compromise valuable cash flow.



Driving AP Process Improvements

Transforming your AP function through an electronic solution such as AP Payments-as-a-Service will allow you to achieve eight critical improvements:

- ✓ **1. Eliminate Manual Processes:** Today's AP professionals seek challenges and don't want to get mired down in fixing the same old problems that plagued their 20th century predecessors. By eliminating manual processes, you'll create an attractive employment environment for your Finance Department staff, which will help attract and retain employees in this highly competitive employment market.
- ✓ **2. Increase Cash Flow Visibility:** When cash is tied up with slower payment methods such as checks, it's almost impossible to gain visibility into your organization's cash flow. There's no way to know whether checks have been delivered or are missing. Electronic payments facilitate rapid payments, which offer much improved cash flow visibility.
- ✓ **3. Gain Real-Time Payment Insights:** Employing a sophisticated electronics payment system provides up-to-the-minute information about where all payments are within the payment cycle. Using this information, staff and managers can understand how cash is being spent, how much is being spent per business unit and per supplier as well as gaining insight through historic trends.
- ✓ **4. Control Payment Timing:** To avoid late payments, many organizations pay as early in their payment cycles as possible. However, electronic payments allow you to schedule payments in advance, improving your cash flow while ensuring that your suppliers are paid on time.
- ✓ **5. Reduce Costs:** Paying suppliers electronically not only saves postage and check printing and processing charges, it also relieves your AP professionals of repetitive tasks such as collecting banking and tax information and chasing down late or missing payments. Abandoning paper checks will save your organization \$4-\$10 a check, for example.
- ✓ **6. Improve Relationships with Suppliers:** Sophisticated electronic payment systems allow suppliers to be paid how and when they want. By offering your supplier options such as early payment in exchange for a discount and virtual card payment methods, you can help improve their cash flow, creating ongoing, sustainable relationships.
- ✓ **7. Free AP Professionals for Value-Added Tasks:** With the improved data visibility and reduction of manual processes offered by electronic payments, your Finance Department professionals will be able to spend their time leveraging cash flow insights so that managers can make better decisions.
- ✓ **8. Turn Payments into a Revenue Generator:** Automating payments can result in rebates on electronic payments, which can then actually generate revenue for your organization. That means instead of a cost center, AP will generate revenue, which you can then use to fund further automation and improvements that will benefit your organization.

Focusing on Top/Bottom Line Growth

As external disruptions increase, the manufacturing organizations that thrive will be the ones that can turn challenges into opportunities. It's past time to bring your AP function into the modern, technologically advanced world that you've already created within your manufacturing facilities.

It's impossible to build the healthy organization of the future while leaving your Finance Department and Payables function behind. To overcome the competition and offer the best products and services to your customers, you need back-office functions that are as automated and seamless as possible. By embracing Payments-As-A-Service and fully equipping yourself for a checkless future, you're positioning your organization for long term success.

About Finexio

Finexio is the leading AP Payments as a Service company focused on enabling end-to-end business payment capabilities in mid-market and enterprise manufacturing organizations. This fully managed AP Payments as a Service solution represents a powerful disruption to traditional, disjointed manual-based AP processes.

Finexio's modern, efficient service model, robust API, SSO capabilities, and differentiated service capabilities allow companies to eliminate manual processes, lower payment costs, and prevent fraud.

To learn more about our AP Payments as a Service for Manufacturing visit:
www.finexio.com/manufacturing