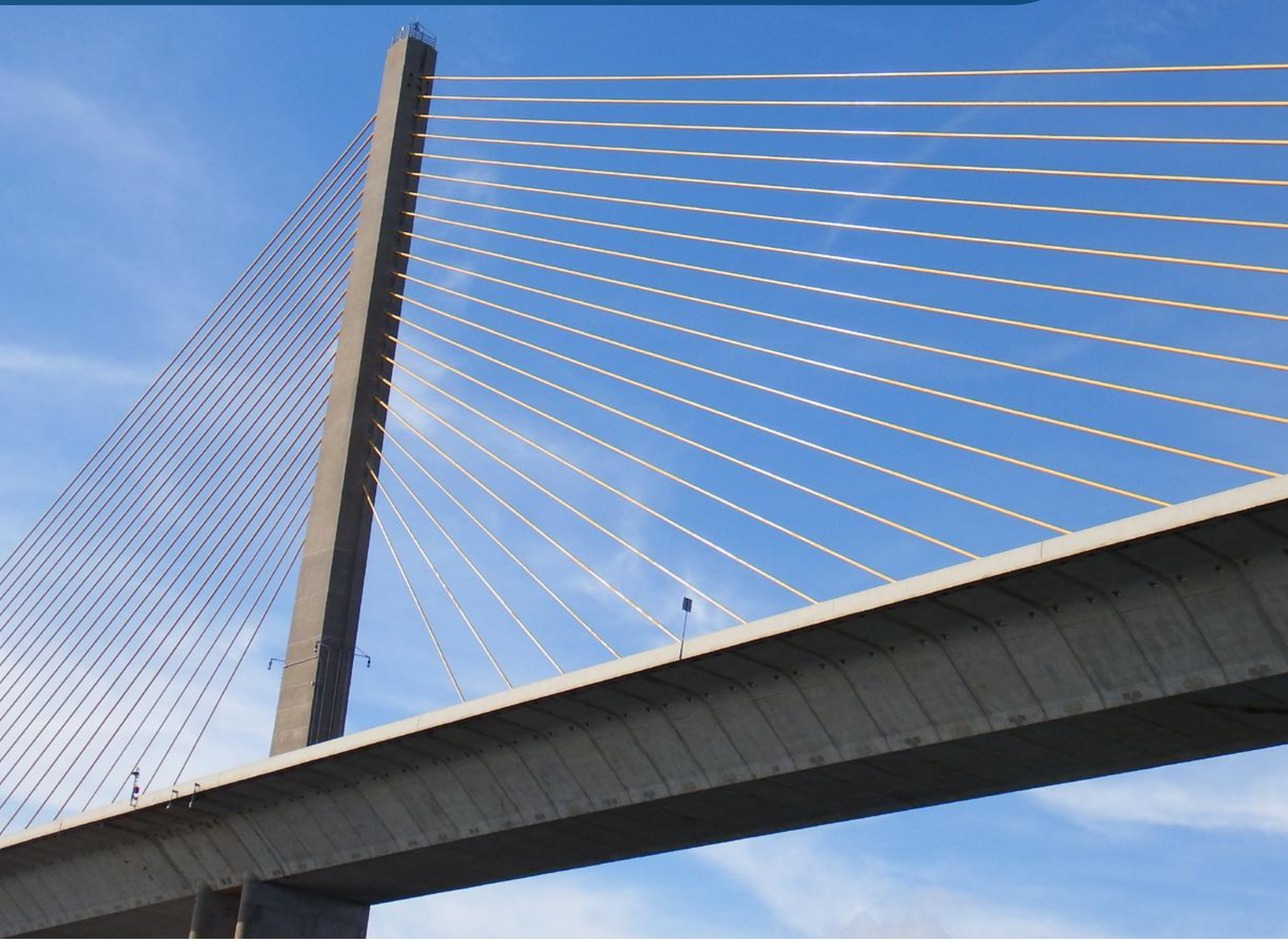
nvoicepay | WHITE PAPER

5 Pillars of Payment Automation in Construction

Top priorities for construction industry professionals seeking to support onsite initiatives through back-office optimization.



5 Pillars of Payment Automation in Construction

Introduction

Construction executives have witnessed a monumental change in the industry in the last few years. Previously uninterested in adopting new technologies into their back office, the industry as a whole has begun seeking ways to improve their internal time-and-cost-saving procedures without interrupting their businesses. Where three years ago, most companies were only sending check payments, pressure from vendors and subcontractors has upended the status quo and left innovative leaders searching for a solution that can deliver on their needs.

Adopting a solution that optimizes back-office procedures lifts the burden from Accounts Payable (AP) without causing interruption to vendor and subcontractor payments. It also enables AP to send funds in multiple payment types through a single payment file without having to maintain vendor and subcontractor banking information.

This white paper offers a bottom-line glance at the industry's past and future directions. It will also highlight hidden areas of concern for company leaders and provide an in-depth and personalized view of solutions from individual company perspectives.

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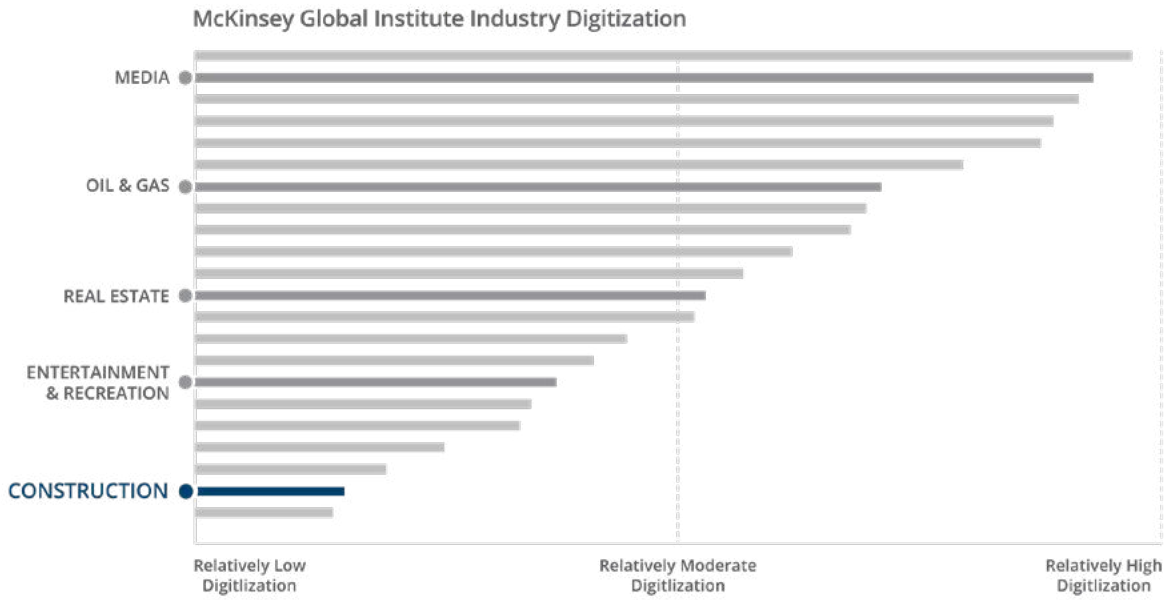
Industry Background

Since the end of World War II, the need for construction companies has increased dramatically. According to a study by McKinsey Global Institute in February 2017 titled "Reinventing Construction: A Route to Higher Productivity", while productivity in other industries soared after the war, construction has barely seen a shift despite the high demand for new and restorative projects.

Productivity in the construction industry remains low primarily because decision-makers are not taking full advantage of their reporting from past projects, which can estimate future budgeting models. Adequate reporting and the increased digitization of payment workflows will play a significant role in the construction industry's direction.



Source: McKinsey June 2016, Imagining Construction's digital future.

The 2016 report by McKinsey Global Institute—"Imagining Construction's Digital Future"—showed the construction industry coming in second-to-last in terms of digitization in the workplace, pulling ahead of only the agriculture industry. How is it that an industry as important as construction is falling behind? Time and monetary constraints are forcing construction owners to retain their tried-and-true payment methods for as long as they can. Forbes' article "Real-Time Payments Aren't Just Faster, They Are Change Agents" says of a Citizens Bank survey, "[...] 75% of businesses still make or accept some payments using paper checks[...]." But growth is causing strain that older processes were not built to support.

It takes a massive amount of time for AP to accomplish straightforward tasks when using decades-old methods and technology. The companies that adopted these conservative, small-business procedures did so in early phases to offset costs in a competitive market while they asserted their place in the industry. However, they frequently maintain those practices well beyond feasibility, and their once-stable system becomes a house of cards.

When owners and CFOs know they need to make a change, but their systems are so ingrained that any change can feel like a massive shift, it's essential to find a solution that will guide your company to a more cost-effective process.

The Solution

Because construction companies are only recently adopting advanced back-office technology, case studies are scarce, and the path to change remains mostly uncharted. Some industry leaders who have delved into payment automation are rolling back because they have been bitten by hidden fees, dishonest contracts, and arduous implementation. They may not have the time or resources to accommodate these roadblocks and resolved that it's simpler to accept the cost of maintaining a manual workload and additional headcount.

With so many issues to keep track of, it can be difficult to know where to begin. Back-office processes amongst companies are so unique and nuanced that not every payment automation solution is built to support them. With that in mind, how do you determine which solution is right for your company? We have distilled the most important factors for consideration into five pillars:

1. Error and data burdens
2. Productive workflows
3. Vendor and subcontractor relationships
4. Security, risk, and fraud
5. Long-term growth

This paper breaks down these pillars in more depth and describes why each one is important from a construction industry perspective, and offers effective questions you can ask prospective solution providers regarding each topic.

The end of the study also includes a list of questions for you to use when reviewing your current back-office procedures, enabling you to decide whether it is the right time to incorporate payment automation into your AP workflow.

Pillar One: Error and Data Burdens

Reduce encumbrances brought on by outdated processes

The industry's mentality has evolved tremendously over the last several years. KPMG's annual global construction surveys show a shift in mindset from 2017 to 2018: The studies show that industry leaders who were only beginning to consider payment automation seriously in 2017 were mapping out their technology integration plans by 2018. The new challenge for business owners is to determine where exactly to invest their valuable resources and integrate new technology into their existing and often complex systems.

For example, controlling data is relatively straightforward for younger or smaller companies. Payment and vendor data can often be maintained in your ERP without adding too much headache. As your company grows, however, so will your payment and vendor count. One day, you may realize your company is quickly outgrowing your old processes, with an AP team drowning in work. To keep up with the workload, you may begin opening data-entry positions within your company. However, the solution is not always to put bodies into chairs, but to optimize your existing staff by introducing payment automation to their daily workflows.

Errors are another common roadblock in the typical AP day and are meticulous and time-consuming to correct. Because there are so many points at which an error may occur, it often requires significant sleuthing to locate and then fix them.

Utilizing a payment automation solution with data and error support not only reduces error instances but also reduces the cost of fixing them, thereby adding value and efficiency to your AP team's processes.

Ask Prospective Payment Automation Solution Providers:

- Does your technology integrate with our ERP system?
- How easily does your solution scale?

Pillar Two: Productive Workflows

Streamline inefficient and complex processes without interrupting payment flows

The check-writing and envelope stuffing of yesterday were never meant to support the tremendous web of businesses, subcontractors, and vendors that exists today—at least not without adding headcount to cover the workload. AP staff are straining under the weight of old procedures, which commonly include printing checks, tracking down signers, stuffing envelopes, delivering checks to the post office, and then following up on unprocessed and fraudulent payments.

Depending on your company's size, merely sending payments can take up to an entire week to complete, if not longer. If anything goes amiss – for example, if there is an unusually large check batch or the primary signer is unavailable – everything comes to a screeching halt. Situations like this cause massive headaches for AP and cost the company time and money to correct.

Understandably, some businesses remain on the fence about uprooting familiar back-office procedures in favor of automation, especially since many of these processes are considered "tried-and-true," and have been in place for decades. Regardless, it's always worth taking a closer look to determine if your system is working to your advantage.

While most technological advancement in the construction industry focuses on purchasing on-site tools, AP remains the foundation of your business—without it, your company could not function. Even a moderately-functioning back-office can quickly turn into a budgeting black hole. When it's time to add value to your Accounts Payable, look for a back-office process that will work for you, and allows your AP team to work smarter, not harder by concentrating on more strategic tasks.

Ask Prospective Payment Automation Solution Providers:

- How long will it take to integrate your technology?
- Which aspects of our payment process would your team handle?

Pillar Three: Vendor and Subcontractor Relationships

Enhance your growing vendor relationships without adding AP workload

In most instances, "payment automation" is synonymous with "offers credit card and ACH payment options", since those payment options typically promise faster payments to their recipients and don't require as much manual work to issue, thus making them more automated. Vendors and subcontractors are beginning to recognize the timing and security benefits of electronic payments and are asking for them more often.

However, for every vendor and subcontractor paid electronically, there must be a validated and securely-stored record of their account information on your company's end. This information is frequently updated by vendors and must be maintained by the payer, or payments may be returned, causing late payments. The thought of this risk is enough to make any logical leader second guess their decision to offer electronic payment options at all.

If the process feels so complicated, why are companies opting for electronic payment solutions? What is the gain that offsets the upkeep costs?

It's not necessarily one with a monetary value: By offering alternate payment options, companies build rapport with their vendors and subcontractors, who enjoy receiving payments much quicker than they would if they were waiting on a standard check to arrive by mail. Timely payments may also benefit your company, as you can take advantage of early-payment discount opportunities.

Some companies provide vendor services as a part of their solution, while others will push vendor maintenance responsibilities back on your AP team. Determine where the line is drawn for your preferred solution provider, so you can understand how much work will be required from your AP team long term.

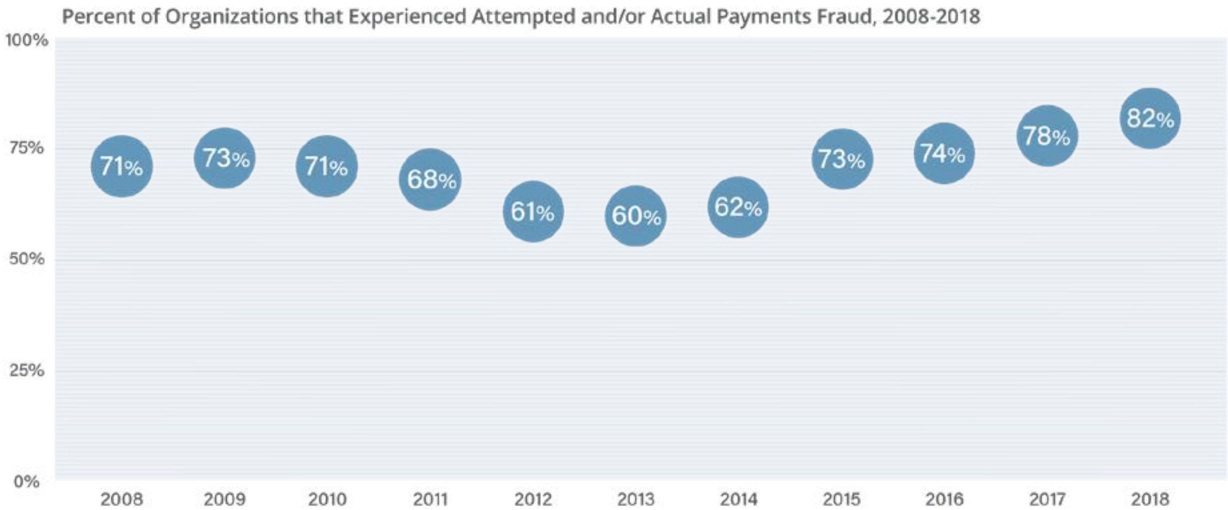
Ask Prospective Payment Automation Solution Providers:

- Who will maintain our vendor records and how will they be maintained?
- Will your company only focus on our largest-volume vendors, or will you look at our vendor list through a more holistic lens?
- How do you treat vendors during interactions?
- Do you provide ongoing vendor validation to ensure that payments are not hijacked by fraudsters?
- After the initial sign-on period has ended, how often will you send enrollment requests to new vendors and subcontractors?

Pillar Four: Security, Risk, and Fraud

Achieve a secure and fraud-resist solution

Most companies have experienced at least one instance of check theft, in which the thief washed a legitimate check and cashed it. Cases of check theft dipped in the early 20-teens as companies and banks shored up their security, yet according to J.P. Morgan's report on financial security, 82% of companies experienced fraud in 2018—the highest number in a ten-year period. The fraud was a mixture between old-school check and new electronic payments security threats. With more entry points, more opportunities for security threats emerged.



Source: Association for Financial Professionals, 2019, Payments Fraud and Control Survey Report

Electronic payment fraud is most common when secure data is updated. Criminals hack into a company's email and request to update legitimate vendor records with a temporary bank account number.

Fraud is often under-discussed, but should be a top consideration as you think about integrating a payment solution. It's essential to know how potential payment automation providers handle fraud cases, which can give you insight into how instances of fraud would be treated if your company became a victim.

Any company that you share sensitive data with should be protected by the highest industry security standard. The following list is a variety of compliance types and security procedures which prospective payment solution providers may mention:

Pillar Four: Continued

SSAE 16 and SOC Compliance

SSAE 16 replaced SAS 70 as the definitive security guide in 2010. SSAE 16 compliance includes SOC auditing, which publicly tracks company compliance statuses. Three types of SOC auditing exist:

- **SOC 1:** Heavily audits internal controls of a service organization. This report can be used by an entity to assess a service organization for relevant and effective controls. Typical entities include, but are not limited to, publicly-traded companies subject to SOX reporting (see below).
- **SOC 2:** Heavily audits data relating to the information security Trust Services Principles (TSPs): Security, Availability, Processing Integrity, Confidentiality, and Privacy.
- **SOC 3:** Lightly audits IT controls relating to TSPs. This audit's controls are more relaxed than SOC 1 and 2.

SOX Compliance

Also known as Sarbox compliance, and referring to the Sarbanes-Oxley Act created in the early 2000s, SOX compliance is a set of government-mandated regulations that publicly-traded companies must adhere to. This information offers transparency into companies' financial records, as well as their wholly-owned subsidiaries. It was enacted to protect shareholders from dishonest internal practices. If your solutions provider is a publicly-traded company or the wholly-owned subsidiary of one, they are legally required to be SOX compliant.

PCI DSS Compliance

PCI DSS compliance, or "PCI compliance" in shorthand, audits companies associated with cardholder details, whether they store, transmit, or accept secure card data. This ensures that companies have a secure protocol in place to limit fraudulent card payment instances. Please note, if a company is SSAE 16 compliant, they are also PCI DSS compliant, but the reverse is not always true.

Fraud Coverage

Some software providers offer a guarantee on all payments, and are financially able to do so through their insurance coverage. Sometimes their insurance plans can also benefit you in other ways than the guarantee. For example, you may be covered for forgery or other fraud instances. Before signing on, take a moment to ask a prospective solution provider if you are also covered under their insurance plan, and for what instances.

Pillar Four: Continued

Employee Security Training

Because many fraud instances occur due to human error, one of the best ways companies can prevent fraud is to provide security training for their staff. Ask your solution provider what sort of training their employees undergo, especially the employees who are speaking directly to your vendors. Many providers also have other security protocols in place, such as verifying calls with a list of security questions. Understand the measures your provider has taken to protect your company's financial wellbeing.

Positive Payee Tracking

A necessary evil of the AP staff's day is reconciling cashed check payments against the payments issued in order to catch fraudulent instances. Typically, banks will match client records against theirs to determine if the account number, check number, and amount of recently-cashed checks match up. Some banks do not match against the payee, however, so if a fraudster washed the name but kept the other information the same, the fraud would be undetectable until the intended recipient claims no-receipt. Some solution providers that offer Positive Payee tracking also match against the payee, so be sure to ask if yours does.

Ask Prospective Payment Automation Solution Providers:

- What protective measures does your company take to ensure the security of our company data?

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Pillar Five: Long-term Goals

Actively plan for the longevity for your company

While the other four pillars are essential when considering the impact payment automation will have on your employees' day-to-day workload, the final pillar, long-term planning, is the most valuable because it can only be attained after the first four pillars are stable enough to support it.

Due to the remarkably competitive nature of the construction industry, many startup companies do not withstand the first five years of operation. This has created a very conservative environment in which companies rarely get to a point where they can make proactive decisions based on growth instead of survival.

Not only does this reactive culture inherently hinder long-term planning, but it also unintentionally deters younger generations from taking an interest in joining the construction industry. As older generations are retiring or looking at retiring within the next five years, the demand for replacement employees is growing. However, business owners are competing with other construction companies and other industries in drawing in new employees.

You can train younger employees to print checks and lick stamps as part of your manual payment process. But you'll draw far more enthusiastic candidates by adopting streamlined technology solutions that reflect your competitive edge and proactive workplace culture.

When searching for a solution provider that can help you accomplish this task, don't think about where your company is now, but where you want it to be in five, ten, and twenty years. A holistic solution is most beneficial when paired with a holistic vision.

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Pillar Five: Continued

The best place to start playing the long-term game without breaking the bank is to enhance visibility into your cash flows through reporting, payment tracking, and reconciliation efforts. New companies can likely accomplish this in-house, or even through your ERP. Understanding the details of your company's cash flow can drive growth by enabling you to strategically prioritize the areas of your business that need the most financial attention.

Many software automation companies offer streamlined back-end reporting and reconciliation for their customers, which can give executives and AP staff an in-depth view of the company's overall health. When looking at your software options, be sure to consider the types of reporting that are offered, and how they can benefit you.

Ask Prospective Payment Automation Solution Providers:

- Does your company have a results guarantee?
- What long-term reporting does your company offer?

What's Next?

The following evaluation will provide you with an objective view of your business so that you can determine your company's strengths and areas for growth. Take the five pillars into consideration when searching for a solution provider that encourages the foundational stability required to solidify your company's position in the industry.

About Nvoicepay

Nvoicepay transforms the way enterprises pay their domestic and international suppliers. Through our intelligent payment automation platform, we enable organizations to pay 100% of their invoices electronically in the same unified workflow. The solution is designed from the ground up to handle enterprise complexity with ease while meeting industry-leading security standards. With Nvoicepay, finance teams win through dynamic supplier activation, superior supplier services, and remarkable results, unlocking value in the payment process.

As a division of FLEETCOR, Nvoicepay is part of one of the largest payment companies in the world, and is the second-largest commercial issuer of Mastercard in North America. Our 8,000 employees partner with companies in 53 countries to manage more than 1.9 billion supplier fleet, corporate purchasing, payroll, and healthcare transactions annually.

> Learn more at nvoicepay.com and contact Nvoicepay at 877.974.1750
> and contact@nvoicepay.com

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Alyssa is a Content Strategist at Nvoicepay. She has five years of experience in the B2B payment industry, specializing in cross-border B2B payment processes.

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