

What's the **COST** of **NOT INVESTING** in Automating Your Vendor Management

A Data-Rich Business Case
to Present to your Boss



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While every finance and procurement team in every industry is aching to move towards digital transformation, higher ups seem to always insist on a business case for investing in automation. Especially for vendor onboarding and management.

WE'D LIKE TO TURN THAT ON ITS HEAD. This template is an outline for you to present the business case for NOT investing in automating vendor onboarding, aka, what it costs you to maintain the manual onboarding status quo.

YES, THAT COSTS SOMETHING. Maintaining the status quo is a business decision. As such, it deserves the same level of scrutiny you apply to building a business case for investment in automation software.

ARE YOU GAME? LET'S DO IT!

This tool is best utilized in one of two ways:

- **Precision** method: Do all of the steps and all of the homework using your own organization's data to calculate your ROI, or
- **Ballpark** method: Use our benchmark data for a shortcut. (Our benchmark data has been collected and calculated using live data and inputs from the PaymentWorks customer network.)

Which method is best for you? Neither is better than the other. Both will help you develop a data-rich business case to present to your boss. The Precision method will provide the most accurate picture of your organization's performance as it pertains to vendor management. While exact calculations take additional effort, they have the built-in bonus that they cannot be easily disputed or dismissed by internal skeptics.

On the other hand, the Ballpark method uses industry benchmarks that can help you develop a business case immediately. The Ballpark enables you to spark this critical conversation quickly and give you time to gather organization-specific data.



The Data You'll Collect

- The number of active vendors in your current supplier file
- The average number of new vendors you add each year
- The average salary calculated per hour and per minute for:
 - Vendor desk manager
 - Procurement buyer
 - AP specialist
 - Business unit owners who interact with vendors
- Number of checks and ACH payments issued each year
- Cost of third-party vendors used to verify vendor data
- Bonus: Cost of fines (if any) for B Notice violations - simply add this to your total

Next, get your stopwatch out. Track how much time it takes, and for whom, to do the following:

- New vendor onboarding tasks
- Third party verification lookups and/or manual vendor verification processes
- Existing vendor change management tasks

Wage Benchmarking

Wages can vary significantly based on industry and geographical location. The wage inputs will have a significant impact on your overall costs.

Note: It's worth the effort to calculate your own organization's actual wage numbers, instead of using our benchmarks, to see a true picture of your costs.

Role	Benchmark Avg Hourly Rate
AP/Procurement/Vendor Desk	\$35/hour
Department Employees	\$40/hour

Definitions

AP/Procurement/Vendor Desk. This refers to the person (or the team) responsible for inputting vendor information into your ERP.

Department Employees. This refers to the person who is responsible for choosing and working with the vendor.

The Calculations

Once you gather all your data points, including task timings, you can calculate your organization's cost per action. Below, you'll find benchmarks from PaymentWorks as examples.

New Vendor Processing Time Estimates

Who	What	Why	Benchmark Time
Department Employee Contact (Owner of Vendor Relationship)	ERP lookup	Is this an existing vendor?	3 min
Department Employee Contact (Owner of Vendor Relationship)	Send vendor 'packet' of onboarding requirements	To ensure vendor submits all needed information to onboard	4 min
AP/Procurement/Vendor Desk	ERP lookup	Is this an existing vendor? (Yes, you are likely double checking)	2 min
AP/Procurement/Vendor Desk	Manual review of submitted documents	Is everything complete?	10 min
AP/Procurement/Vendor Desk	Communication with vendor regarding documentation	For returns of incomplete documents, follow ups with additional requests.	12 min
Department Employee Contact (Owner of Vendor Relationship)	Ongoing communication with vendor regarding onboarding needs, status, follow up	Internal contacts are generally where the vendor goes with questions. These people end up playing phone tag in two directions to gather this information.	30 min
AP/PROCUREMENT/Vendor Desk	Data entry inputs into the ERP	To create the official record of the vendor and to assign a vendor number	10 min
TOTAL TIME			71 minutes

New Vendor Processing Calculation Formula and Example

Total minutes spent by
AP/Procurement/Vendor staff

$$\begin{aligned}
 & \quad \times \text{ minute rate(s)} \\
 & \quad \times \text{ number of new vendors} \\
 + & \text{ Total minutes spent by Department Employee} \\
 & \quad \times \text{ minute rate(s)} \\
 & \quad \times \text{ number of new vendors} \\
 = & \text{ annual cost to organization for new vendor processing}
 \end{aligned}$$

Sample with 5,000 active vendors and 750 new annual vendors

$$\begin{aligned}
 & \text{AP/Procurement/Vendor 34 minutes} \\
 & \quad \times \$.58/\text{minute} \\
 & \quad = \$19.83/\text{vendor} \\
 & \quad \times 750 \text{ new vendors annually} \\
 & \quad = \mathbf{\$14,875}
 \end{aligned}$$

$$\begin{aligned}
 & \text{Department Employee 37 minutes} \\
 & \quad \times \$.67/\text{minute} \\
 & \quad = \$24.66/\text{vendor} \\
 & \quad \times 750 \text{ new vendors annually} \\
 & \quad = \mathbf{\$18,500}
 \end{aligned}$$

New Vendor Processing Annual Costs: \$33,375

Data Verification Processing Time Estimates

Who	What	Why	Benchmark Time
AP/Procurement/ Vendor Desk	ACH fraud checks- 3rd party check (e.g., Early Warning System (EWS) lookup)	Using EWS eliminates approximately 50% of the US bank accounts from needing further scrutiny	10 min
AP/Procurement/ Vendor Desk	ACH fraud check vendor phone calls	For accounts that do not pass EWS, further verification efforts are needed Benchmark: 35% of your new vendors will require a phone call	10 min
AP/Procurement/ Vendor Desk	Sanctions list check	To avoid paying debarred or sanctioned vendors Benchmark: 3 lists checked at 3 min per list	9 min
AP/Procurement/ Vendor Desk	Insurance Certificate reviews	To ensure current certificates which meet your organization's requirements Benchmark: 50% of your vendors will require COI's.	5 min
TOTAL TIME assumes manual bank verification and COI review 34 minutes			

Data Verification Processing Calculation Formula and Sample

Total minutes spent by AP/Procurement/Vendor staff

x minute rate(s)
x total number of vendors who pass EWS
+ Total minutes spent by AP/Procurement/Vendor staff
x minute rate(s)
x total number of vendors who require a verification phone call
= total Annual New Vendor Data Verification Process Costs

Calculation with no vendor phone call for verification

AP/Procurement/Vendor
24 minutes
\$.58/minute =
\$13.92
x 487
= \$6,779

Calculation with vendor phone call for verification

AP/Procurement/Vendor
34 minutes
\$.58/minute =
\$19.72
x 263
= \$5,186

Annual New Vendor Data Verification Process Costs \$11,965

Sample with 5,000 active vendors and 750 annual new vendors.

Benchmark of 35% requiring vendor phone calls = 263 vendors will require a phone call

Don't forget to run this calculation again with only 50% of the vendors requiring COI processing time. That saves about 1,875 minutes or \$1,094 in this example.

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Data Verification Processing Calculation Formula and Sample

Total minutes spent by AP/Procurement/Vendor staff

	x minute rate(s)
	x total number of vendors who pass EWS
+ Total minutes spent by AP/Procurement/Vendor staff	
	x minute rate(s)
x total number of vendors who require a verification phone call	
= total Annual New Vendor Data Verification Process Costs	

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Data Verification -Third Party Costs

Include all of the 3rd party tools your team uses to verify vendor information. These should be calculated on a per cost lookup.

What	Cost Per Look Up
Bank account lookup	\$.80
TIN lookup	\$.25
Sanction monitoring lookup	\$.60

Total = \$1.65 per new vendor

Data Verification -Third Party Costs Calculation Formula and Sample

number of new vendors
x cost of 3rd party lookup
= annual cost to organization
750 new vendors
x \$1.65
= \$1,238
Annual Cost of 3rd Party Look Ups \$1,238

Existing Vendor Change Processing Time Estimates

Across the PaymentWorks customer network, we see an average of 30% of existing vendors submitting an information change each year, including: banking, remit address, point of contact, etc. Benchmarks for timing on processing changes are below.

Who	What	Benchmark Time
Department Employee Contact (Owner of Vendor Relationship)	Send vendor 'packet' of onboarding requirements	3 min
Department Employee Contact (Owner of Vendor Relationship)	Communication with vendor	12 min
AP/Procurement/Vendor Desk	ERP lookup	2 min
AP/Procurement/Vendor Desk	Manual review of submitted documents	5 min
AP/Procurement/Vendor Desk	Communication with vendor regarding documentation	6 min
AP/Procurement/Vendor Desk	All fraud/sanctions/insurance reviews, calculated at the 'new vendor' times above	24 min (assumes account passes EWS) 34 min (assumes account does not pass EWS)
TOTAL TIME 52- 62 minutes		

Existing Vendor Change Processing Calculation Formulas and Sample

First, calculate the following:

$$\begin{aligned} &\text{Number of existing vendors} \\ &\quad \times .30\% \\ &= \text{average \# of changes annually} \end{aligned}$$

Next, calculate the following:

$$\begin{aligned} &\quad \times \text{total minutes spent by AP/Procurement/Vendor staff} \\ &\quad \times \text{minute rate(s)} \\ &\quad \times \text{average \# of changes} \\ + &\text{total minutes spent by Business Owners} \\ &\quad \times \text{hourly rate(s)} \\ &\quad \times \text{average \# of changes} \\ + &\text{minutes spent by AP/Procurement/Vendor staff on verification} \\ &\quad \times \text{hourly rate(s)} \\ \times &\text{average \# of changes annually (from above formula)} \\ \times &\text{total 3rd party lookup costs} \\ = &\text{annual cost to your organization to process existing vendor changes} \end{aligned}$$

Benchmark of 1,500 changes expected
(30% of 5,000 existing vendor)

$$\begin{aligned} &\text{AP/Procurement/Vendor (no manual bank verifications)} \\ &\quad 37 \text{ minutes} \\ &\quad \times \$.58 \text{ per minute} \\ &\quad = \$21.46 \\ &\quad \times 1,500 \text{ changes} \\ &\quad = \mathbf{\$32,190} \end{aligned}$$

$$\begin{aligned} + &\text{AP/Procurement/Vendor (phone call bank verifications) 10 minutes} \\ &\quad \times \$58 \\ &\quad = \$5.80 \\ &\quad \times 525 \text{ vendors} \\ &\quad = \mathbf{\$3,045x} \end{aligned}$$

$$\begin{aligned} &\text{Business Owner calculation} \\ &\quad 15 \text{ minutes} \\ &\quad \times \$.67 \text{ per minute} \\ &\quad = \$10.00 \\ &\quad \times 1,500 \text{ changes} \\ &\quad = \mathbf{\$15,075} \end{aligned}$$

Annual Existing Vendor Updates Costs: \$50,310

BONUS CALCULATION Paper vs. Electronic Payments

An added layer to your costs is what is being spent instead of saved due to paying via paper check vs electronic payment methods.

The benchmarks below are based on PaymentWorks customer data prior to using our platform. Of all of the data points, these should be the easiest to replace with your actual data. The average cost per check we calculated using a blend of a variety of publicly available sources.

Note: The benchmarks include staff time costs.

Example Sources:

[Commerce Bank](#) [Wall Street Journal](#)

Current check volume as a % of active suppliers	80%
Average cost to issue a check	\$4.50

Paper vs. Electronic Payments Calculation Formula

Calculation:

#of checks
x \$4.50

= **annual cost to pay suppliers via paper check**

A Note About Virtual Card Payments

While inputting an exact calculation for virtual card spend is difficult, industry benchmarks indicate an annual attrition rate of 40% over a four-year period*. Vendors who say yes to being paid via a virtual card often change their minds when payment terms are not consistently met.

Be sure to consider the cost of that lost revenue and/or the costs associated with annual bank call campaigns in terms of hourly rates for the involved staff. This one should be easy to do your own real math and insert your attrition rate.

**There is not a virtual card issuing entity in the land who will go on record as a source for this data. We have included the above stat based on years-long conversations with industry subject matter experts in virtual card payables.*

Don't Forget About Payments Fraud Costs

When building your business case for continuing the status quo with manual vendor onboarding, you must include a figure to cover expected losses due to a vendor impersonation scheme. This can be tough to calculate.

To start, consult your internal risk management team to understand your insurance policy coverage for losses due to social engineering scams. Using your deductible is one easy way to quantify the minimum amount of this potential cost.

Bottom line? If you are going to continue to invest in the status quo of manual vendor onboarding, you simply must set aside funds in the event of a fraud loss. No matter how buttoned up your procedures are, if you continue to rely on humans being right 100% of the time, eventually some piece of your process will be exploited by a fraudster.

Closing Message From Us

THERE YOU HAVE IT!

Your very robust business case for not investing in automating your vendor onboarding process, i.e., for sticking with the status quo of your manual practices.

At PaymentWorks, we're ready to help you make the other business case, i.e., the one where investment equates to improved outcomes. The one where time saved leads to higher job satisfaction and less churn. The one where you eliminate costs of individual data points and third-party subscriptions. The one where you actually have the bandwidth and the tools to execute your plan to move to more ACH and virtual card payments. The one where you transfer the risk of fraud losses off of your plate.

The one where you sleep better tonight.

Want More Resources?

- [5 Ways Your Vendor Master is Costing You Money – Mistakes & Fraud Edition](#)
- [5 Ways Your Supplier Master Data is Costing You Money – Compliance Edition](#)
- [Risky Business with PaymentWorks: E7–Keeping it Clean](#)

[Vendor Management Appreciation Day Resource Page](#)