

Mohawk says goodbye to paper invoices

Mohawk Profile

Mohawk Industries (NYSE:MHK) is one of the world's largest suppliers of flooring for both residential and commercial applications, with manufacturing operations in the United States, Mexico and Belgium.

Based on Calhoun Georgia, the Accounts Payable department is responsible for processing invoices for the United States operations – interacting with over 8000 suppliers, ranging from small “mom and pop” operations to large multinational organizations. While most of the current suppliers are located in the United States and Canada, the number of international suppliers is growing.

A purchasing card program is used for small MRO – maintenance are paid through invoices – on average 20,000 per week.

The Evolution of Invoice Automation

Before 2001, Mohawk's A/P operations were essentially manual. Although Mohawk utilized JD Edwards Financials, each of the A/P clerks spent a full two hours each morning “getting ready” (opening mail, sorting, etc.) before starting to key in the data from the paper invoice.

Every company is driven by its culture. For Mohawk, seeking out innovative technology to improve its business processes while also reducing costs is at the heart of its culture.

Mohawk's Accounts Payable department embraced that culture in 2001 when it was one of the pioneers in implementing front-end imaging and workflow for invoice processing. Invoices were sent directly to the imaging

“The experience and consultation that OB10 offers in addition to supplier enrollment and network management are really what is taking our e-Invoicing program to a place that assures Mohawk will maximize a paperless A/P environment.”

*Mark Dailey
Director of Financial
Operations and Support
Services*

Mohawk Industries



Services department where they were scanned and indexed.

All error-free PO invoices were processed using a split screen that enabled the clerks to see the image of the invoice as they keyed in the data to the accounting system. Mohawk used a workflow system to route Non PO invoices (28%), pricing discrepancies (4.75%) and receiving discrepancies (7.75%) for approval or exception processing.

Business Challenge

While front-end imaging and workflow enabled the average clerk to process more invoices each day, paper continued to dominate the processing environment, preventing the department from making the type of breakthroughs needed to significantly reduce operating costs, to address tough new compliance issues resulting from the Sarbanes-Oxley Act and to enable Mohawk to continue to be recognized as one of the best payers in its industry.

In 2004, Mohawk's CEO challenged the A/P team to evaluate methods to further reduce costs by considering alternative and innovative A/P processes.

Solution Selection Process

Labor is by far the major cost component for Accounts Payable. So, to meet the challenge, Mohawk needed a solution that would address the fundamental problems that drove up labor costs in Accounts Payable - paper and exceptions. And since the majority of causes for exceptions can be traced back to paper, Mohawk focused on eliminating paper.

The project team considered EDI. However, EDI would require a heavy dependence on scarce IT resources. Since every supplier has its own requirements and invoice formats, Mohawk's IT department would have to manually map every one of the participating suppliers to its JD Edwards system. Even if Mohawk limited the program to its high volume suppliers, IT would have 1000 mapping projects.

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Like most companies, Mohawk's IT resources are limited. Large projects that will require heavy IT involvement for a long period of time are often difficult to prioritize at a high level. A/P was concerned the project would not progress quickly enough to realize any meaningful benefit.

Further, after more due diligence, Mohawk found that many suppliers balked at the EDI option; as it is cost-prohibitive for smaller suppliers, and most don't have the internal IT staff to manage this type of complicated transaction. EDI wasn't an acceptable option.

When the team evaluated outsourcing, they found that the potential cost savings would be offset by a number of troubling issues. First, logistics would be harder. Second, it would be difficult to guarantee compliance with financial reporting provisions of the Sarbanes Oxley Act. Third, their supplier relationships would hinge on the performance of a third party. Fourth, even if the outsourcer performed well, many of their smaller suppliers might react negatively — perceiving that they had been “handed” off to an outside firm. Fifth, paper and errors would still dominate processing. Mohawk needed to eliminate paper in order to achieve all its goals. Outsourcing wasn't an acceptable option.

During the team's discussions with consultants and potential vendors, they were introduced to another potential option — e-Invoicing. The project team focused on one key question — “What solution will convert the highest number of paper invoices to electronic in the shortest amount of time.” After a year of researching alternatives, the Mohawk team answered the question: OB10.

There were other factors as well. OB10 doesn't require specialized hardware or software, so demand on IT would be minimal. OB10 doesn't put limitations on invoice formats, file formats or communication methods — so getting suppliers to participate would be easier.

Additionally, OB10's supplier enrollment team would take the lead in managing the process. The increasing importance of international suppliers would require cross-border trading expertise (VAT compliance, language, local customs) and OB10 was already a proven, global network

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that addressed these issues. Last but not least, the OB10 pricing model enabled Mohawk to achieve ROI in 3 months.

Implementation & Results

Although Mohawk has over 8000 suppliers for its US operation, the top 4000 account for the vast majority of invoices and in fact, the top 1000 suppliers account for over 500,000 invoices per year (50%).

Mohawk provided a list of the top 4000 suppliers to the OB10 Supplier Enrollment team. The initial focus of the OB10 team was on the top 1000 suppliers. Within 5 months, 76% of these suppliers had enrolled in the program, enabling Mohawk to reduce paper invoices by over 400,000 annually.

Electronic invoices are transferred directly from the OB10 network to the Mohawk JD Edwards accounting system. Since OB10 uses Mohawk's business rules to validate these invoices before accepting them from the supplier, there are fewer exceptions.

Once received, the Mohawk system performs a three-way match using the invoice, the PO, and the receiving data. Because OB10 provides line level detail, a higher percentage of the invoices are matched without human intervention. The matched invoices are transferred to Mohawk's vouchering system and are queued for timely payment. Non PO and non-matched invoices are automatically routed to the workflow system.

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The Bottom Line

Through attrition and re-assignment to more value-added job positions, Mohawk has reduced the Accounts Payable full time equivalent (FTE) staff by 9 since the implementation of OB10. With the project moving on to the next 3000 suppliers, Mohawk anticipates additional reductions in labor costs.

Mohawk implemented innovative technology that improved its business processes while at the same time also significantly reduced operating expenses. Mohawk retains direct control over its invoice processing and its supplier relationships, reports accurate accrual data that is essential for Sarbanes Oxley reporting and streamlines its processing enabling it to sustain its reputation as one of the best payers in its industry.

About Mohawk

Mohawk is a leading supplier of flooring for both residential and commercial applications. Mohawk offers a complete selection of carpet, ceramic tile, wood, stone, laminate, vinyl, rugs and other home products. These products are marketed under the premier brands in its own trucking fleet and over 250 local distribution locations.

About OB10

OB10 simplifies and streamlines the complex invoice-to-pay process. Neither client organisations nor their suppliers are required to implement any hardware or software, and OB10 is independent of the data file formats.

Operational across Europe, North America and Asia, OB10 is compliant with the requirements of VAT, tax and e-Invoicing legislation and exchanges invoices between thousands of customers in over 130 countries.

To ensure unrivalled and rapid supplier enrolment, each new customer's suppliers are supported by an implementation services team responsible for getting them up and running on the OB10 network.

Customers include: *Agilent Technologies, Aviva, Barclays, BP, Cargill, DHL, DSG International, Fisher Scientific, General Motors, GlaxoSmithKline, Hertz, Hewlett Packard, IBM, Kellogg's, Logica, Deutsche Lufthansa, Mohawk Industries, Pfizer, SaraLee, Shaw Industries, Tesco and Xerox.*

+44(0)870 626 5214
info@ob10.com
www.ob10.com

