
Managing Workflow for Cash Flow for CFOs and Controllers

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July 2008

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Executive Summary

Imagine spending \$1.5 million each month in late fees just from your utilities. Or taking over a department and discovering \$200,000 in unpaid invoices sitting in a desk drawer. Both are true examples of how antiquated manual processes in A/P departments can seriously damage a company's bottom line.

The challenges in accounts payable facing CFOs and financial managers today include A/P automation, approval workflow, e-invoicing, e-payments, shared services and vendor acceptance. Margin pressure, caused by increased commodity prices, the declining dollar and tough market conditions are putting even more demands on CFOs. The declining dollar is driving up the cost of imports. It is extremely difficult, however, to pass this increase on in a market hampered by increased unemployment and declining consumer confidence. On the compliance front CFOs have to deal with Sarbanes Oxley and the Patriot Act and with compliance issues in the European Union, especially where invoices are concerned.

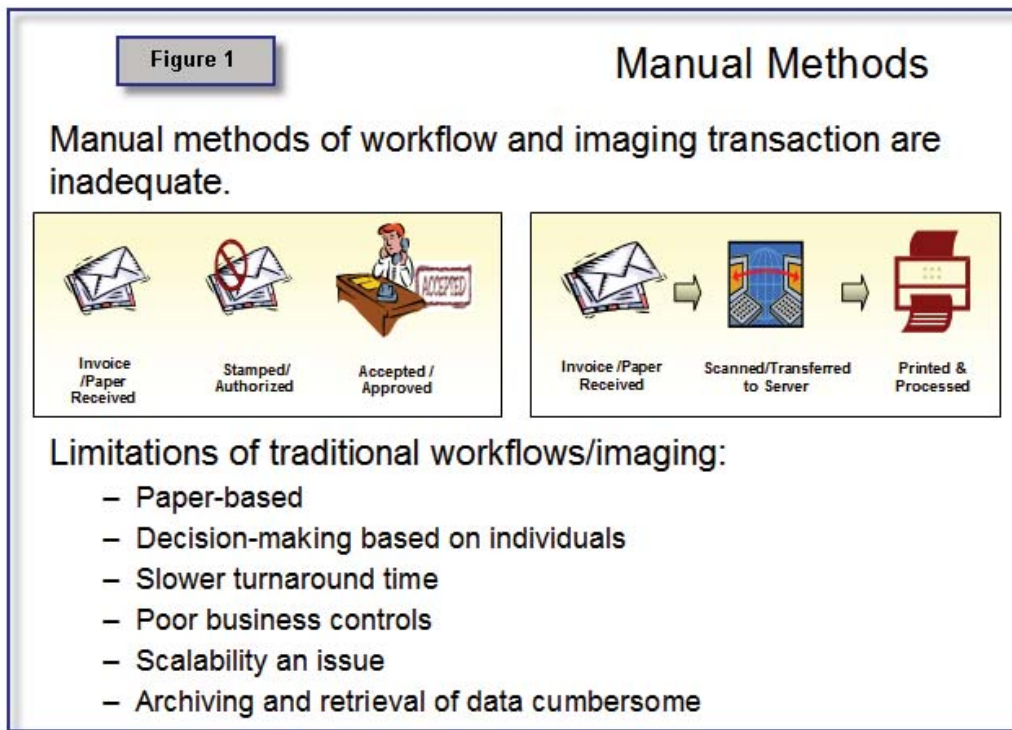
At the same time, financial managers are being forced to focus on internal issues. They spend more time on simple transactions rather than strategic activities. They are pressured for better ROIs from their technical investments. They are facing poor data management (often from separate units); a paper process that leaves them in the dark; and non-standard processing systems often resulting from the mergers and acquisitions activity that all businesses face.

So what are the priorities for a CFO today? He or she has got to reduce costs by increasing process efficiency and resource efficiency throughout the business. Managing cash flow is more critical today than in the past. CFOs must also focus on strategic business initiatives, ensure compliance to meet the regulatory requirements and those of outside auditors. And somehow, CFOs and financial managers are expected to provide better and faster information so businesses can make timely decisions.

The Problems With Paper Transactions

Today many A/P departments are still working in a paper world. Yet, many attempts to automate have failed to generate the expected returns. So how can this situation be turned around?

Manual methods, seen in Figure 1, are ineffective and open the floodgates for too many errors.



Consider how extensive the workflow is: paper invoices are received, stamped and accepted by a person. This often means that the invoice has not gone to the A/P department, but to the buyer or requestor – who can be anyone in the company. If there is scanning involved it is often back end scanning (after the transaction’s been processed the invoice is scanned and put into some form of database).

The process is all paper-based with individuals making decisions regarding the fate of this invoice, and it comes at a very high cost to the business. Roughly seven-and-a-half to eight percent of all invoices sent directly to an individual disappear in the process. Paper processes result in slower turnaround times; for many companies it takes between 20 to 45 days from the time the invoice is received until it is finally paid. And when working manually it's very difficult to increase the volume of transactions handled without adding headcount. In addition, the archiving and retrieval of data is cumbersome, quite often because nobody knows where it is.

So what are the costs of all of this? Actually getting a true cost is very difficult. The range for processing a paper invoice can be as low as \$3 and as high as \$63, but most companies fall within a \$9 to \$15 range. Costs are in time, as well; most companies assume 20 to 45 days elapsed processing time. This hurts for two reasons. One, trade discount captures are impossible. And utilities, telecommunications and other customers charge late fees, which can be high, if your process is slow.

There also are tremendous and costly inefficiencies in phone calls to the A/P department. Seventy-five percent of all A/P calls are status calls asking, "Where is my payment?" And 80 percent of calls come from internal employees. That means the vendor calls the buyer asking for his payment. The buyer then calls A/P and A/P calls him back and so on. The Gartner Group once estimated that each one of these calls cost \$9.

So what are the goals for improved A/P efficiency?

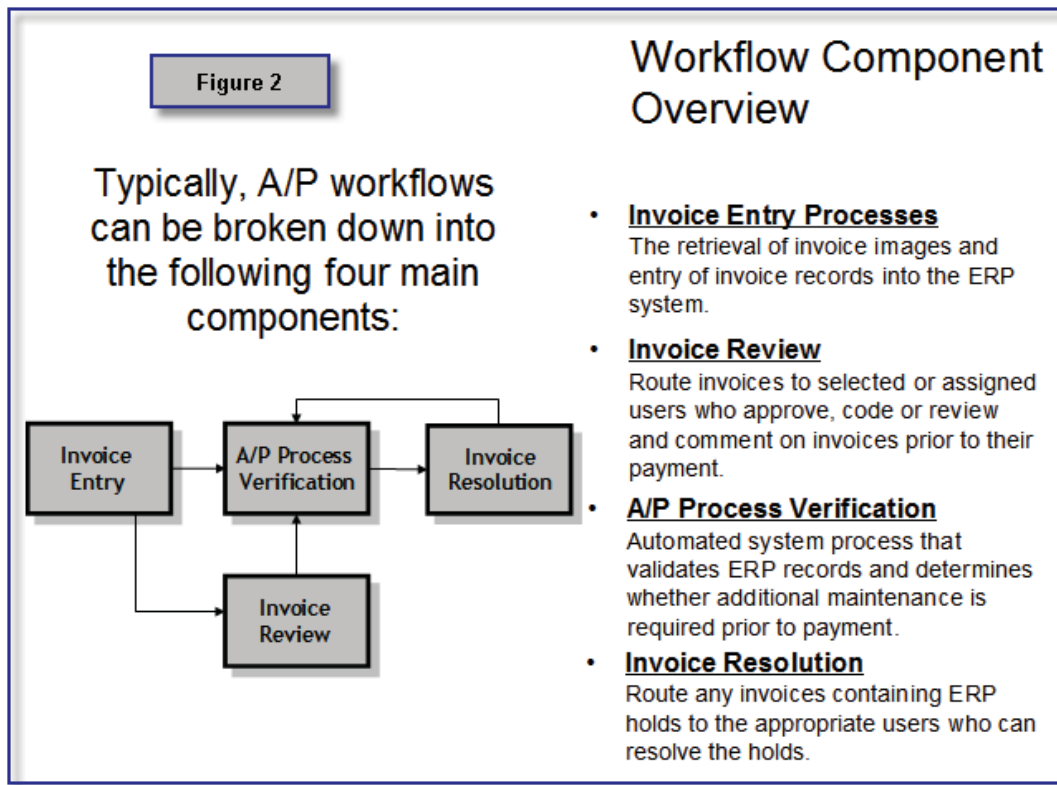
1. Pay the invoices on the due date. Not early (excluding discount incentives) or late.
2. Discount recovery. This could be the largest contributor to the bottom line.
3. Eliminate late fees.
4. Know exactly what payments are due over time.
5. Improved compliance.

Based on these goals, there are several recommendations for success.

1. Install a system that automates the process. This is critical for the A/P department today, and solutions like that by Basware fit this need in today's businesses. A/P departments need a system that automates the matching, the approval routing, the document handling and reporting.
2. Use purchase orders for all purchases, and you can eliminate a lot of the steps that are in the manual process today.
3. Encourage suppliers to use e-invoicing.
4. Use the Web for self-service status reporting. Have clients go to the Web to look up when their payment is due and post that information. You can do it either on an internal site of your own or an external hosted service.
5. Use non-invoice processes such as evaluated receipt settlements (ERS) or p-cards. These methods are especially popular in the manufacturing and retail industries.
6. Implement e-payment and e-remittance delivery.

Workflow and Automation

For many today, workflow is a manual process (see figure 2). An invoice is received by the buyer/requestor and “approved,” accounting details such as cost center and GL code are added, and then the document is forwarded to a superior for final approval before being sent on to the A/P department for entry into the system and payment. During the approval process any discrepancy results in the invoice being pushed aside until somebody has time to figure out what’s wrong.



Invoices should enter the computer system as early as possible. Invoices should be sent directly to A/P whether it comes in via mail, OCR, EDI or a Webprocess. Then, if a PO is in the system, the invoice can be matched automatically. Business rules can be set to handle the approval pro-

cess. Invoices with a matching PO and receiving document can be sent directly to the payment queue. So now, only the discrepancies go out to a person for approval.

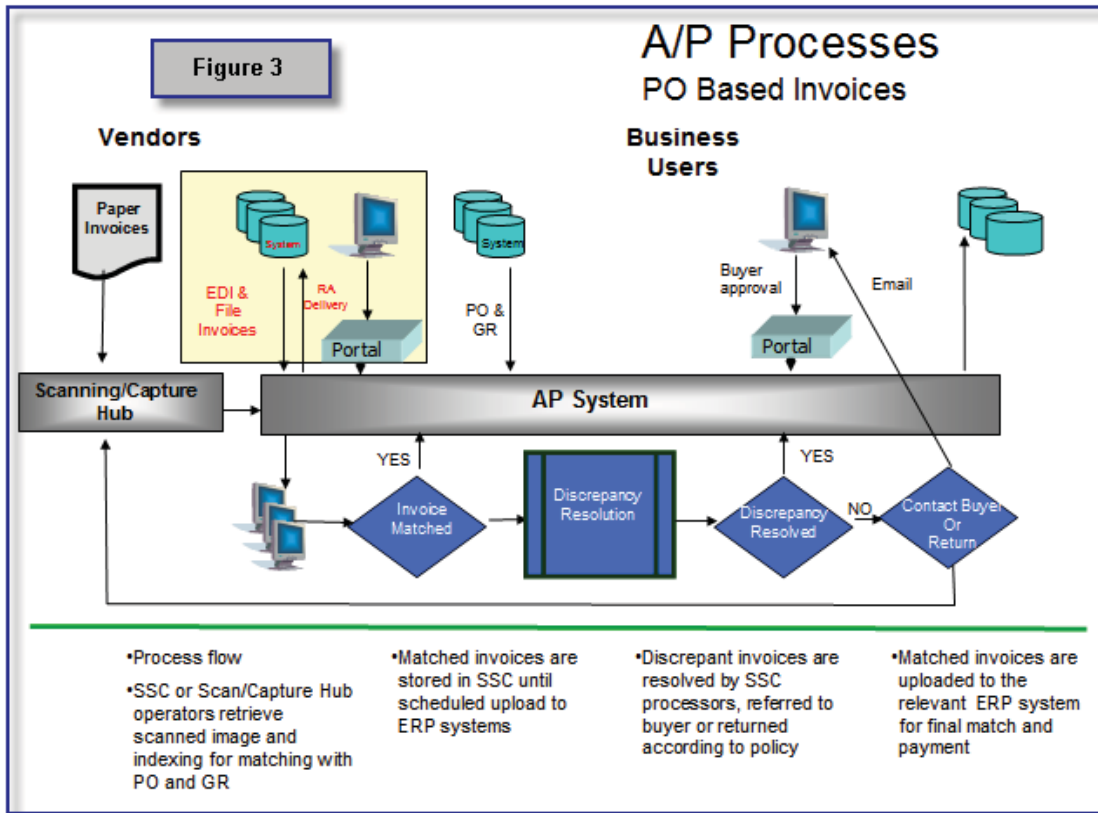


Figure 3 shows how the process works in many companies today. On the vendor side you have three ways of bringing the documents in. You will always have paper invoices. You can get maybe 90-95 percent paperless if you're lucky. Those papers come into a central scanning hub, and the details can be scanned into the A/P system.

In addition you will be getting EDI and file invoices coming in, as well as invoices coming in through a portal. Once the invoice is in, it's matched. Any discrepancy would not be handled electronically; it would go out to someone for approval. If it is resolved it goes straight into the system and then straight out to payment. The more you can automate the flow, the faster the transaction can go through the system.

Hewlett-Packard and other companies also do passive approvals. If an invoice requires an approval the systems sends a message that says, “You have three days to respond to this. If you don’t respond, we will approve it automatically.” Companies can create their own policies regarding how to handle approvals, for example implementing passive approvals for all transactions under a certain dollar limit, or all discount-eligible transactions

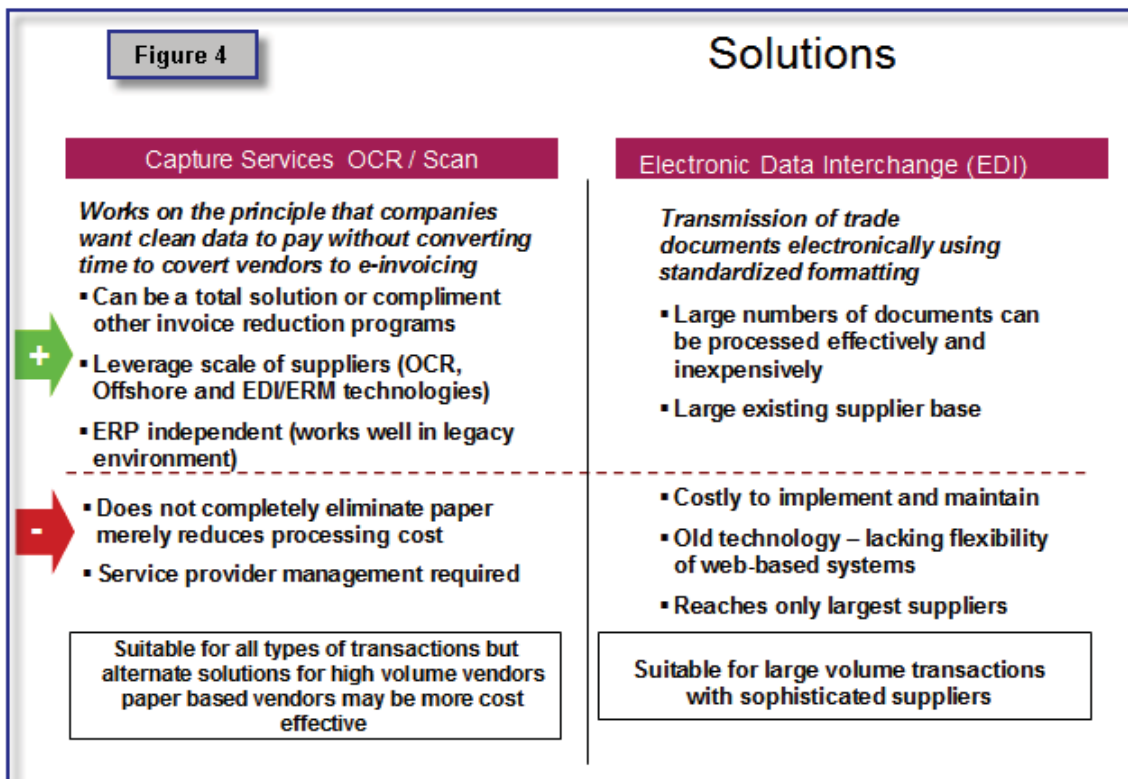
Payments can be made electronically through your bank or through a third party provider. The remittance advice, or “check stub” can be sent electronically or posted to the company Website.

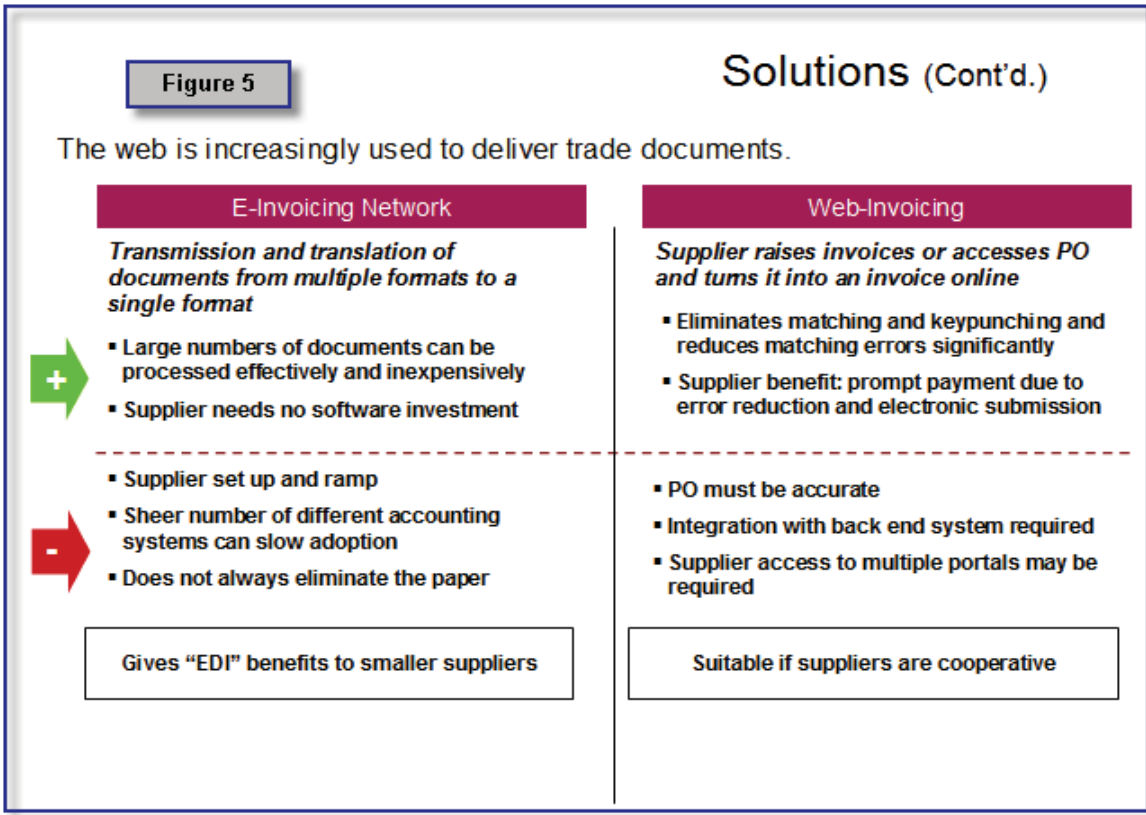
Solutions to Eliminate Paper

Solutions which eliminate paper invoices exist but cannot be universally applied. Consider a few solutions:

1. Capture services/OCR scanning. This works on the principle that companies want clean data without spending time to convert vendors to e-invoicing. Many new OCR processes will automatically match that invoice not only against the PO but against the vendor master file, if necessary. These can be done in house, although many companies prefer to use an outside supplier because they are better equipped to handle it. It doesn't completely eliminate paper but it definitely cuts down the processing costs. If you do use a service provider, they will need to be managed.
2. Electronic data interchange (EDI). This is suitable for large volume transactions with sophisticated suppliers. Certain industries (particularly manufacturing and retail) have very high volume EDI. Very, very large numbers of documents can be handled. And there is a very large existing supplier base in the U.S, Canada and in Europe with EDI capability. The problem is that EDI is old technology, and it only reaches the highest volume suppliers.
3. E-invoicing networks. E-invoicing gives EDI benefits to smaller suppliers. Large numbers of documents can be processed effectively and inexpensively, and there's no investment required on either side. However, it is critical to get the vendors to use the system. One of the biggest problems in the accounting world is the number of accounting systems. In fact, one large manufacturing plant recently surveyed 50 of their suppliers and found 43 different accounting systems. Consider e-invoice (and e-PO) service providers that can effectively convert data from one system to another.

4. Web-invoicing. This is usually done by suppliers on your own Web site. A PO is posted on the Website, the vendor can “flip” the PO over to an invoice, eliminating the need for keypunching, and errors are reduced significantly. If the PO is accurate, the suppliers are paid faster, but it does require integration with your back end systems. And often the suppliers have to use multiple sources, so it’s only suitable if the suppliers are cooperative.





Benefits of E-Payments

The key reasons for switching to e-payments are early payment discount recovery and late fee elimination. For many companies the discount for the payment is documented when the check is recorded in their system, not when you mail it out. E-payments speed up that process. When I worked at GE this was the company's number one goal. We wanted discount recovery. We estimated that we could get literally hundreds of millions of dollars if we could get the discounts, so we started the program with e-payments. And it didn't work because we didn't do the e-invoice. We didn't do the e-PO. So we backed into it with e-payments. For most companies I suggest you start with automating the PO, then the invoice, then the payment.

E-payments offer other advantages as well. ACH costs are coming down faster even than U.S. postal costs are going up. Also, e-payments help prevent fraud. Millions of fraudulent checks are intercepted each year. While consumers are writing fewer checks because of the use of credit and debit cards, the actual number of fraudulent checks is increasing.

Another factor is our global economy. The U.S. lags behind the rest of the world in e-payments. In the U.S., 81 percent of businesses still use paper checks. In contrast, Europe has a higher rate of electronic payments: for example, Germany is 99 percent electronic and the U.K. is 75 percent electronic.

Another factor affecting many businesses is compliance with the Office of Foreign Asset Control rules. The OFAC rules prohibit payment to companies and vendors listed on the Specially Designated Nations and Blocked Parties List (SDN). Companies are required to check all vendors to make sure they are not on the lists. In the ACH world, the bank is actually doing that for them so it gives them some form of security. This list is updated regularly and is available for the Government at <http://www.treas.gov/offices/enforcement/ofac/sdn/t11sdn.pdf>

Suggestions for Automation

Centralization is the key to successful automation. Consider reorganizing to a shared services center. Instead of having multiple divisions issue checks or payments, bring it all into one department. If you bring purchasing and accounting, or accounts payable all into the same center, you can control the transaction from beginning to end. This will drive the greatest cost reduction, because of economies of scale.

Technology, such as that provided by Basware, can offer a great savings. Start adding services to your system that gives better information to your internal customers. In fact, with shared services, the financial supply chain can be achieved. Typical shared service cost reductions can be: for general accounting, a savings of 55 percent; for payroll, a savings of 35 percent; for payables a savings of 45 percent, and for receivables and credit a savings of 25 percent. (Anderson Consulting)

To make all of this work the vendors must consent. The vendors are critical and the best time to get them on board is when negotiating the contract or the price. When I was at GE we worked with customers on prices if they allowed e-payments. If a customer came to us and said, “I want a better price for my goods,” we would say, “Fine. We can do that. But you have got to help us take the cost out. So we’re going to e-invoice you on the fifth of every month. If we don’t hear anything from you by the 25th of the month, we are going to put an electronic debit through against your bank account.”

If the vendors want to increase your price you say, “Ok, help me offset that pricing increase. Send me an e-invoice and accept my e-payment.”

When presenting e-payment options, companies can offer a few alternatives. This is one way we forced the process at GE. We would give the vendor two choices: one, GE would ask for payment terms, such as 2 percent/10 or 1½ percent/15. If the vendor did not give GE terms, they would be paid in full at 60 or 90 days, never before. Automation helped control this process, and today allows dynamic discounting (i.e. discount terms are offered on a sliding scale of days).

Also at GE, GE Capital rather than the buyer actually negotiated the terms with the vendor. So negotiations were put it into the hands of somebody in finance; GE's target was to have 50 percent of all vendors on discount terms.

You can also instate a cash penalty for paper. Some companies in the retail industry charge for processing paper – up to \$150 to \$200 to process a paper transaction. (Note: they take the cost off the payment. In the UK the phone company now charges the customers for paper bills and checks...this will come to the US.)

Cost Savings

A/P centers that fully automate can expect a significant cost savings. If the process is electronic – from an electronic purchase order to an electronic payment – you can expect to pay as low as 80 cents per invoice, though an average may be more in the \$1.30 to \$1.50 per invoice range. Of course, that range involves a high percentage of actual purchase orders. If the PO is eliminated, the costs do go up. Where indirect purchases are involved, where there may not be POs, the prices may rise as high as \$2. However, this is still well below payment processing costs of \$3 to \$63 mentioned earlier.

Processing time is often reduced to one to three days, which makes trade discount captures very possible. The other big benefit of automating, particularly if you have the upfront portal, is that both call volume to A/P and error handling are both dramatically reduced.

At the very least, automation can help prevent paying millions in late fees or discovering stacks of long-forgotten invoices.

About David Hay

David has recently retired from a 40-year career spanning International Banking, Finance and Computer Services and Outsourcing. Most recently, David served as the Director of Shared Services Business Services Outsourcing, for Hewlett-Packard. He was formerly marketing manager for e-payments and financial services for Global eXchange Services (GXS), where he was responsible for the strategic direction and development of GXS's online invoicing and payment solutions for B2B e-commerce on a worldwide basis and has served on GE Capital's initiative to create a GE Center of Excellence for e-billing.

David has worked with GE Capital, GE Medical Systems and GE Industrial Systems. As a member of key focus groups and task forces, he helped the GE businesses with their EDI and e-commerce initiatives. In his 24 years of GE experience, he has held several key management positions in financial services, e-commerce and sales & marketing. A former international banker, David has over 35 years of experience in the financial and e-commerce industries.

David now provides consulting services in payables improvement and procure-to-pay process; he works closely with The Accounts Payable Network as a part of TAPN's advisory board; he is a regular speaker at accounts payable and payment conferences; and he is CFO of Atlantis Divers in Richmond, Virginia. (Dave is an accomplished diver, and his CEO son a top-rated dive instructor.)

About Basware

Basware is the global leader in Enterprise Purchase-to-Pay (EPP) solutions with over 1,200 clients in 50 countries. Basware solutions transform manual, paper-based procurement, travel & expense, and payables processes into an automated process that seamlessly integrates with, and complements existing accounting and ERP systems such Oracle, SAP, Lawson, Microsoft, plus 100 more. Our EPP solutions deliver value by providing compliance and control, as well as fast return on investment. Built-in intelligent best practices, process automation, and powerful exception management increase efficiency and reduce costs. Automating your organization's procurement, invoice handling, and travel and expense management processes not only improves business performance but frees your staff to focus on core business and generate customer value.

With an ROI of less than 9 months and applications that have evolved with extensive input from our users, BasWare delivers the most comprehensive Invoice Automation, Procurement, and Travel & Expense solutions available today.

For additional information, please contact Basware at 203-487-7905 or www.basware.com/us.