

## Optimizing payables processes and working capital with the Payables Continuum



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## Introduction

### A common goal:

- To make Accounts Payable more efficient by eliminating paper and automating manual processes

### How today's discussion can help your Organization:

- Create a strategy for maximizing efficiencies by focusing on working capital optimization
- We will do this by looking at payables holistically using The Payables Continuum

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## The Payables Continuum

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## Introducing the Payables Continuum

### What is the Payables Continuum?

- A way of enhancing the payment process and its related working capital opportunities so that supplier payment relationships can be mutually beneficial

### How does it work?

- It can guide the matching of each supplier to the right payment product and strategy to optimize working capital... and processes as a result
- Put simply, when working capital is the driver of the strategy, it can create optimal efficiencies in the AP process

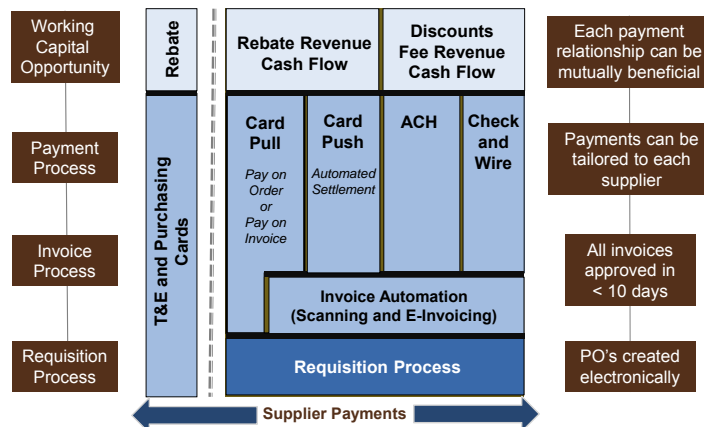
Working Capital Optimization ● Process Optimization

Process Optimization ● Working Capital Optimization

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## Payables Continuum – The Path to Optimization

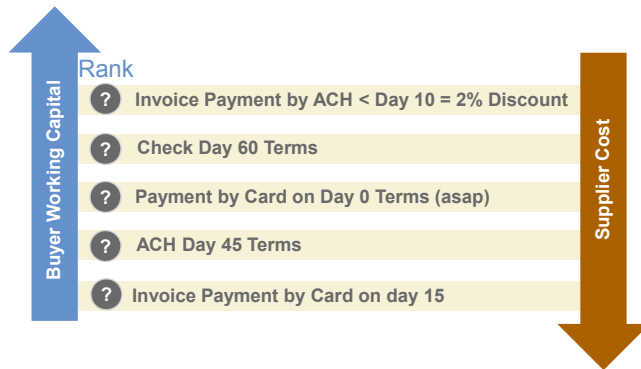


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## Understanding the benefits and costs of different payment strategies

**Question:** I've been tasked with optimizing working capital in the Payables process. Where do I start?

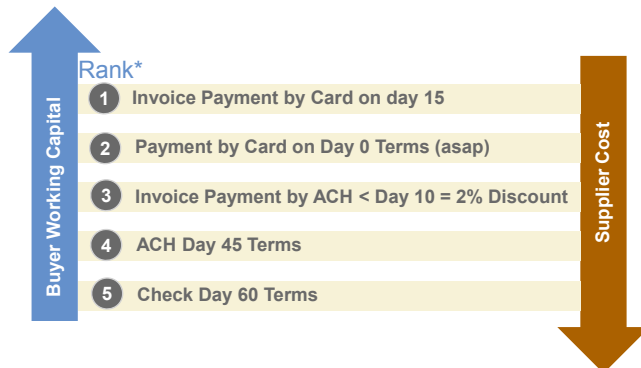


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## Understanding the benefits and costs of different payment strategies

**Answer:** Priority is given to the payment product and strategy that generates the greatest working capital return for the buyer

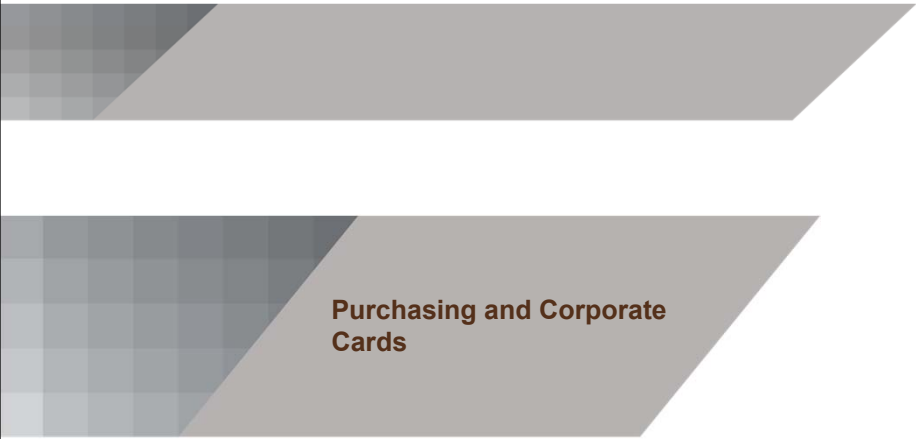


**A payables challenge:** Card programs can deliver the greatest return for buyers but supplier acceptance remains a challenge...

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\*Assumes baseline payment term of Net30 for all suppliers

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## Purchasing and Corporate Cards

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## Purchasing and Corporate Cards

Purchasing and Corporate Cards are products created to capture incidental business and travel-related expenses

### Process and Working Capital Opportunities

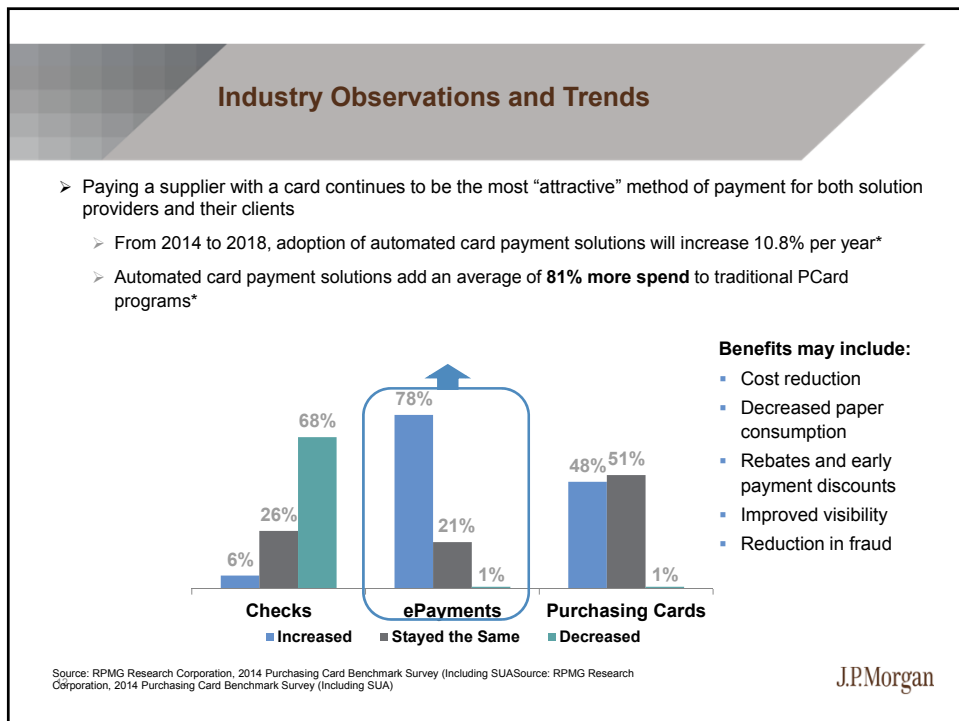
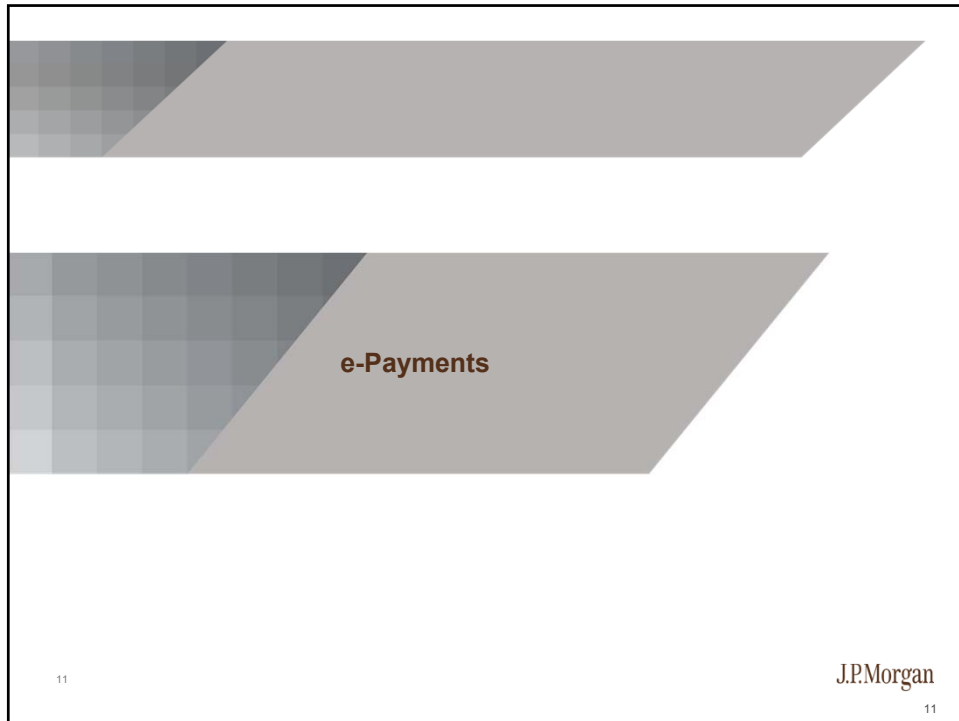
- Eliminate checks and invoices with low-dollar card-matched suppliers (payment is taken at the time of the “order”)
- Buyers earn revenue on every dollar of spend

### Challenges with Purchasing/Corporate Cards

- Maximizing transactions while minimizing the number of cards
- Creating supporting policies
- Utilizing administrative and reporting tools to promote control and visibility
- Solve for large percentage of suppliers, small percentage of spend
- Avoiding “scope-creep” into Accounts Payable

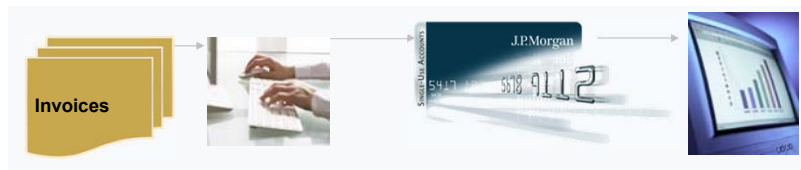
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## e-Payments: Automating Vendor Payments

An electronic payment solution that is disbursed like an ACH, offers check-like controls with the working capital benefits of commercial card



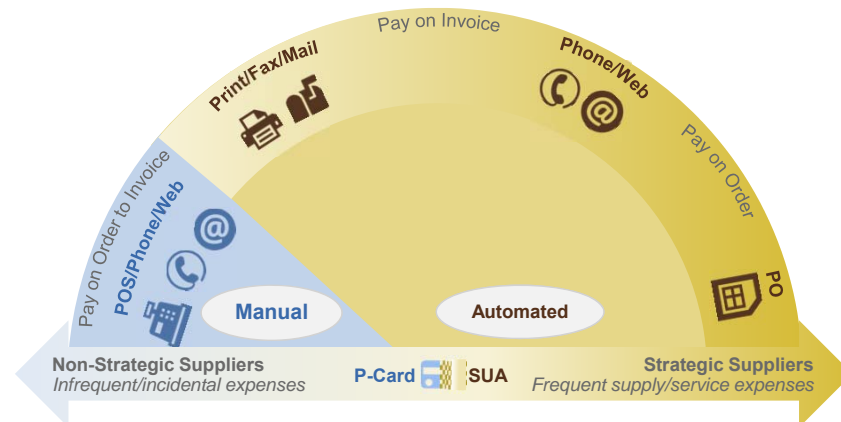
- Virtual payment account number sent via email – no physical plastic is issued
- Reduces the opportunity of vendor and employee errors or misuse
- Auto reconciliation of vendor transactions
- Similar to checks:
  - Unique 16-digit account number per supplier or per payment (depends on solution)
  - Accounts are active for a defined time period (e.g., 30 days)
  - Account credit limit equals the exact payment amount – to the penny

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## Flexible card payment options can maximize spend ...and working capital

Suppliers want options. Diversifying the delivery method of card payments can increase participation by increasing card payment options for suppliers.



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Source: RPMG Research Corporation, 2014 Purchasing Card Benchmark Survey

## Value Proposition for e-Payment Vendors and Suppliers

### Supplier Benefits:

- Secure form of payment
- Early payment liquidity solution for suppliers that require immediate cash on hand
- Simplified reconciliation with full remittance and payment processing details
- Minimal to no-change management (majority of vendors already have a POS terminal)
- No need to retain card information (no physical plastic cards)

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## Value Proposition for e-Payment Buyers

### Buyer Benefits:

- **Working Capital Benefit #1:** Earn rebate revenue on every participating dollar
- **Working Capital Benefit #2:** Pay early to improve supplier participation but hold on to cash longer with card "float"
- Easy - Only change is to payment type and it mirrors the existing payment process for approved invoices
- Efficient – automated disbursement and reconciliation
- Exact-authorization: Pre-set dollar limits equal to the amount of payment
- Avoid the burden of 1099 data collection and issuance

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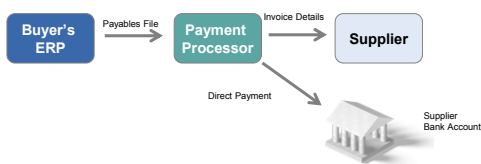
## Push vs. Pull e-Payments

### 1. Pull Payment – Traditional card “swipe” by supplier



Advantage	Disadvantage
<ul style="list-style-type: none"> <li>Two forms of working capital for buyer</li> <li>Automates buyer payments</li> <li>Familiar process for supplier</li> <li>Flexibility</li> <li>Mature solution</li> </ul>	<ul style="list-style-type: none"> <li>Manual payment process for supplier</li> <li>Higher cost to supplier than push</li> <li>Strategic Supplier Acceptance</li> </ul>

### 2. Push Payment – Funds deposited directly into supplier's account



Advantage	Disadvantage
<ul style="list-style-type: none"> <li>Working Capital for buyer</li> <li>Automated buyer disbursement</li> <li>Touchless supplier receivables process</li> </ul>	<ul style="list-style-type: none"> <li>Limited supplier participation</li> <li>Supplier targeting and enablement process</li> <li>Not a good fit with non-contract suppliers</li> <li>Lower rebate for buyers than pull payments</li> </ul>

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ACH

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## Benefits associated with ACH

Benefits of using ACH for payments to suppliers include;

- Streamlined electronic disbursement process that eliminates the cost of printing a check
- Timely payments with associated convenience and security features
- Familiar, widely accepted method of payment
- Low cost of acceptance for suppliers

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## ACH can optimize non-card accepting payments

ACH creates efficiencies by automating payments...

...but has no built in working capital component

### Working Capital Opportunity

- Reducing Cost of Goods via investing in the early payment of suppliers for a discount. **Example:** 2/10 net 30
- Improving Cash Flow by pushing terms out on suppliers unwilling to offer a discount. **Example:** Original net term; Net 30. New net term; Net 45

### Challenges with ACH

- ACH automates payments but has no built in working capital component
- Hard dollar upfront, annual and/or transaction costs
- Early payment discounts require a fast invoice approval process (<10 days) and automated invoice solutions can be complex and expensive
- Enrolling suppliers on ACH can be time consuming and bank account information must be retained on file

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## ACH can enhance non-card accepting payments

Taking payables beyond card requires knowing the “who, when and how” of ACH use

- **Who:** High spend, strategic suppliers under contract unwilling to accept card for payment
- **When:** As a secondary option for card-matched suppliers and as a primary option for non card-matched suppliers
- **How:** Early payment (if possible) for a discount as the primary option or terms extension (“new Net terms”) of 15-30 days as the secondary option

**Question:** Does a 2% discount provide a better working capital return than a 1% card rebate?

**Answer:** It depends when each payment is made (how many days after the invoice is received) and if there is a hard-dollar cost to the buyer factored in to the calculation

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Check

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## Enhance remaining payments by outsourcing checks and extending terms

Checks will continue to be a fit with certain suppliers and payments for the foreseeable future...

### Working Capital Opportunity

- Improving Cash Flow by pushing terms out on suppliers unwilling to take a card payment or offer a discount. **Example:** Original net term; Net 30. New net term; Net 60

### Process Efficiency Opportunity

- Outsourcing check printing “automates” the disbursement of checks, can lower costs, and off load fraud, disaster recovery and equipment maintenance risks,

### Challenges with Check

- It is a costly form of payment (hard and soft dollar)
- The slowest form of payment
- No built in working capital component

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## Enhance remaining payments by outsourcing checks and extending terms

Taking payables beyond card requires knowing the “who, when and how” of check use

- **Who:** Suppliers unwilling to accept card or ACH or low spend, infrequent transacting suppliers
- **When:** As a secondary cash flow option for suppliers being offered card or ACH (Example: new “check” net terms; Net 60)
- **How:** Outsource the check print function to a solution provider who can provide cost savings, automated disbursement and strong reporting/control functionality

**Question:** How can a check print outsource solution provider lower my costs?

**Answer:** By passing on their economies of scale benefits to you.

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## Sample Assessment

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## Sample Business Case

### Step 1: Segmentation and Targeting\*

Example Spend Segmentation	# Suppliers	% Suppliers	# Payments	% Payments	Total Spend	% Spend
Net Target	2,000	100%	60,000	100%	\$ 100,000,000.00	100%
<b>INVOICING</b>						
E-Invoicing	400	20.0%	40,000	80.0%	\$ 90,000,000.00	90.0%
Scanning	1000	50.0%	6,000	12.00%	\$ 8,000,000.00	8.0%
<b>PAYMENTS</b>						
Purchasing Card	600	30.0%	5,000	10.0%	\$ 2,000,000.00	2.0%
ePayments - E-mail Delivery	240	12.0%	12,000	24.0%	\$ 20,000,000.00	20.0%
ePayments - Phone/Web Delivery	60	3.0%	1,000	2.0%	\$ 5,000,000.00	5.0%
ACH (Conversion from Check)	200	10.0%	25,000	50.0%	\$ 60,000,000.00	60.0%
Check Print	900	45.0%	7,000	14.0%	\$ 13,000,000.00	13.0%

#### Segmentation Criteria Should Include:

- Total spend with each supplier
- Total payments/invoices with each supplier
- Average transaction size
- Card acceptance
- Current payment type
- Current payment terms
- "In-network" vs. "out-of-network" suppliers

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\*Variables are hypothetical. Information is for illustrative purposes only. Costs and processes vary by client

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## Sample Business Case

### Step 2. Quantification and Prioritization\*

Annual Payables Process and Working Capital Optimization Estimate	
Commercial Card Rebate Revenue Opportunity (PCard + ePayments)	\$ 266,749.38
Reduction in Cost of Goods from Early Payment Discounts (ACH)	\$ 115,499.90
Cash Flow from Payment Terms Extension (ACH and Check)	\$ 216,528.47
Savings from Check Elimination/Outsourcing (ePayments, ACH and Check)	\$ 93,205.59
Savings from Check & Invoice Elimination (PCard)	\$ 8,760.00
<b>Net Payables Optimization Financial Benefit</b>	<b>\$ 700,743.33</b>

#### Assumptions:

- 1% rebate rate on standard interchange spend, 0.5% on large ticket
- 15% of ACH spend earns discount of 1.2%
- Weighted Average Cost of Capital of 5%
- Per check cost savings; \$2.50, per invoice cost savings; \$2.06
- Additional proprietary assumptions are made on PCard and ePayments spend capture

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