White Paper

Finding Cash in a Cash-Strapped World

Article 3 in a series of 3 articles

June 2010

Unlock the Power of Accounts Payable

Article by

Penny Gillespie
Gillespie International, Inc.

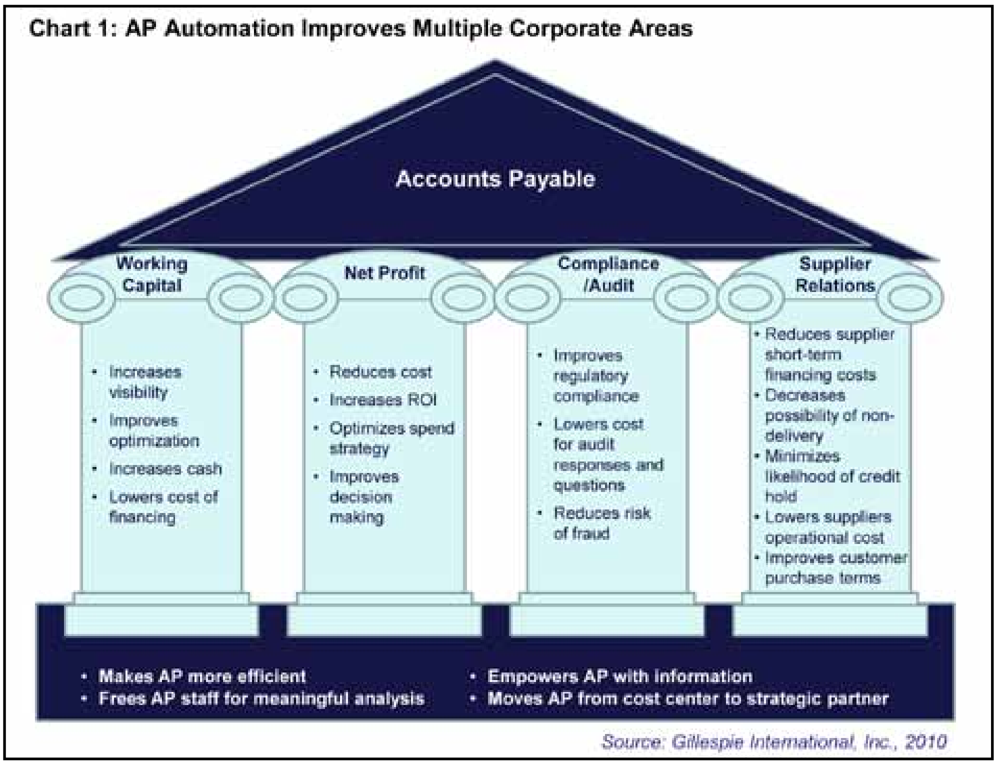
Table of Contents

1 Introduction

When organizations seek to increase and optimize cash as dictated by the current economy, they often neglect the accounts payable (AP) department – perceiving it to be merely a group of paper chasers. Although this may be true in a paper world, nothing is further from reality in an electronic world. As the world shifts from paper to electronic source data for invoicing, so does the role of AP. As AP moves from a paper-based department to an electronic one incorporating automation and straight through processing (STP), it can increase corporate profits and shifts from a cost center to an income producer and strategic advisor.

2 Show Me the Money

In 2008 the financial markets took a sharp downturn due to a credit crunch fueled by the mortgage financial crisis. Even the healthiest of industries and companies felt it. Cash began to shrink, with balances often dropping between 10 and 16 percent.[1] Suppliers halted production and banks closed their doors. CFOs developed a renewed interest in cash and its management. Declining profit forced companies to look inward for working capital because they were unable to find or afford it in the external market. Surveys repeatedly showed (and continue to show) CFOs' top concerns to be cash management and working capital.



The components that typically impact cash and working capital the most are inventory, purchasing, accounts receivable and accounts payable. To achieve the best results in any endeavor, a cash conscious organization should take all four into consideration. Yet, many organizations neglect AP. Research continually shows that most companies view AP more narrowly than the other three components when it comes to both financial supply-chain efficiency and working capital optimization. Organizations often fail to see the breadth of AP — perhaps due to its primary responsibility of moving money out of an organization.

AP automation, on the other hand, keeps more money in the organization and enables high returns on it. Moreover, an AP department's processes have a wide breadth of influence on an organization. In addition to heavily impacting working capital and net income, it has a significant impact on compliance and supplier relations (see Chart 1, above). AP automation not only makes AP more efficient, freeing staff for more meaningful work, it empowers AP and the entire organization with information on multiple levels — saving time and improving the accuracy of planning within the organization.

AP automation has multiple benefits. It increases working capital, which in turn increases net profit. AP automation also brings new opportunities for higher return yields, which also increases net profit. Compliance for Sarbanes-Oxley (SOX) and adherence to accounting standards, such as the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), become stronger, while responding to audit requests become faster and easier. Relationships with suppliers also become stronger.

Working Capital

- **Greater insight enables better cash optimization:** Borrowing and investment decisions become smarter due to an increased visibility into the financial supply chain. Account balances for cash and payables are more accurate, and changes to them are better anticipated. Cash-flow forecasts are more exact. Better accounting of cash and pending expenditures prevents premature borrowing and identifies investment opportunities — putting cash to work and optimizing its use.

- **Cash balances increase because daily operations require less money:** Automation decreases the cost of processing an invoice by reducing the time period for processing, and increasing the number of invoices an FTE can process — which also increases cash on-hand. In many cases, invoices can be automatically processed based on business rules without human intervention. Because invoices are processed in much shorter time periods, fees for late payment become almost nonexistent. The amount of cash on hand is increased by eradicating unnecessary expenses.

- **Less reliance on external financing lowers the cost of working capital:** Because visibility improves the knowledge of actual account balances and cash on-hand is increased, the need to seek expensive external financing is reduced. Some companies find they have money to invest, which yields higher returns for them and offsets the cost of working capital when required.

Net Profit

- **Purchasing costs diminish:** Overcharges on invoices are easily avoidable thanks to the ability to electronically and automatically match invoice data to source document data such as purchase orders, receiving logs, and contracts. Purchase prices decline with the ability to create and enforce a spend strategy. Purchasing or sourcing departments use historical data on spending to reduce the number of suppliers, and therefore negotiate better volume purchasing deals.

- **Payment discounts yield high annualized returns:** As the amount of cash on hand increases and AP processes invoices in shorter time periods, cash discounts for early payment may be taken. For example, a common payment term is 2/10 net 30,[2] which when annualized, is the equivalent to an ROI of slightly more than 36%.

- **Aggregated historical data enables better decisions and optimizes corporate performance:** Having easy access to spend data is eye-opening. Using this data, companies have made such decisions as outsourcing an operation, in-sourcing a process and changing the location of a warehouse. These types of decisions make companies more effective, which in turn promotes greater customer satisfaction.

Compliance and Audit

SOX was passed in 2002 as a deterrent to corporate accounting fraud and corruption. Section 302 requires CEOs and CFOs to certify the information in their companies' quarterly and annual reports. Section 404 requires establishment of and adherence to internal controls for financial reporting, as well as an annual management report and audit report attesting adherence to the internal controls. AP automation supports these two sections of the law, reducing compliance cost.

The International Accounting Standards Board (IASB), incorporated in 2001, is an independent standards setting board focused on developing a single set of enforceable and globally accepted financial reporting standards known as International Financial Reporting Standards (IFRS). Public companies apply these standards to financial statements to raise investor confidence in their financial reporting. Approximately 120 nations and reporting jurisdictions permit or require IFRS for domestic listed companies; approximately 90 countries have fully conformed to IFRS. In 2006, IASB and the U.S. Financial Accounting Standards Board (FASB) issued a Memorandum of Understanding for advancing convergence of IFRS and U.S. generally accepted accounting principles (GAAP). In February 2010, the SEC issued two releases (Nos. 33-9109 and 34-61578, Commission Statement in Support of Convergence and Global Accounting Standards), stating its continued belief that a single set of high-quality globally accepted accounting standards would benefit U.S. investors and its continued encouragement for the convergence of U.S. GAAP and IFRS.

- **A consistent and well-documented process supports the financial responsibilities of CFOs and CEOs:** AP invoice processing is based on well-defined business rules that include such things as multiple sign-offs for invoices exceeding a specified dollar limit, matching of invoice data to source document data (such as PO, contract, or receipt log for validation), and identification of exception processing which enable all transactions to be processed consistently.

- **Internal controls embedded in the AP application enable early fraud detection:** For business rules to be automatically executed, they must be well-defined and documented. Any exception to the documented process can be identified and flagged for review by specific individuals. A detailed audit trail enables easy investigation of transactions and their processing. Potential fraud is identified at its onset, and can be investigated and addressed quickly before losses become significant.

- **Accounting report and audit requests are faster and cheaper:** Electronic data makes the often tedious and time consuming tasks of month-end accrual reporting and audit requests for documentation easy. Because data is stored electronically, it is easily retrieved, analyzed and reported.

Supplier Relations

The entire invoice to payment process is expedited, which puts the buyer totally in charge – opting to pay suppliers promptly, if not early, or to make conscious decisions to delay payment to suppliers, based on existing cash conditions. In the case of early or prompt payments, the supplier's operating cost is reduced, which in turn lowers the cost of goods sold to customers.

- **Faster payment reduces short-term financing cost**: Suppliers are paid more quickly due to customer ability to process invoices in a sufficient time period for payment within 30 days or earlier if payment discount terms are offered. Because payment is earlier, suppliers need short-term financing for a shorter amount of time, which reduces their cost of capital.

- **Prompt or early payment promotes good will and a reduced cost of goods:** Customers who pay promptly are less likely to experience non-delivery or a credit hold. In fact, customers who pay promptly are more likely to experience a cheaper cost of goods due to receiving better payment terms than customers who delay payment.

- **Shorter elapsed time to process an invoice reduces supplier operating cost:** Suppliers reduce operational costs by eliminating the need to resend lost or missing invoices, and to continually call the customer regarding payment. Because the status of an invoice is readily available to the supplier, suppliers know when to expect payment.

Reporting

A natural fallout of any automated process is the rich data associated with it. Not only does AP become more efficient and better able to use its FTE resources, it has access to important data that enables stronger performance across the entire company – contingent on the degree of automation and integration completed. Real-time reporting on multiple organizational levels becomes possible. Budgeting and forecasting become easier and more accurate. Monthly accrual reporting becomes painless, with data drill-downs being possible to the cost center, accounting voucher and invoice levels.

3 Make My Day

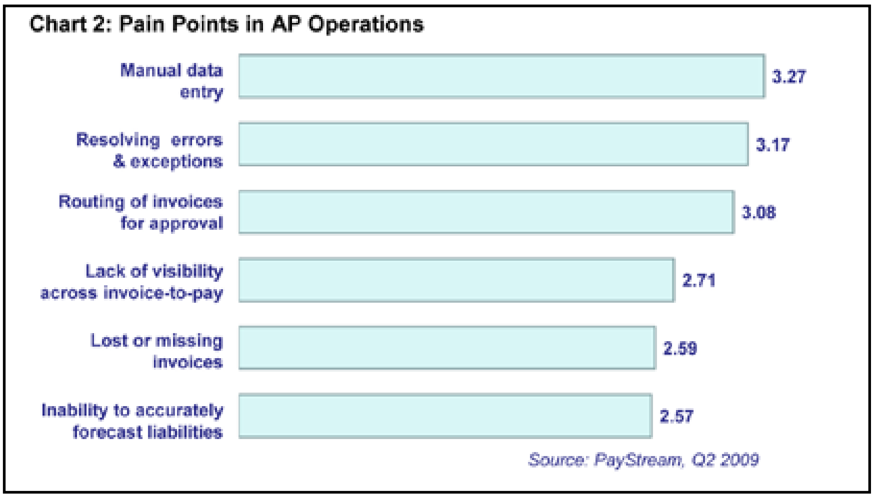
Not only does AP automation improve multiple aspects of an organization, it also brings greater efficiency to the AP department – solving the most common AP issues. A PayStream Benchmarking survey on AP asked respondents to rate the pain associated with AP activities on a scale of 1 to 5, with 5 being the highest. The top six pain points are all related to paper invoices (see Chart 2, below).

AP automation offers the following remedies for these pain points:

- **Manual data entry:** Data entry is no longer required. By definition, invoicing data is electronic, eliminating the need for any additional data entry. Data is sent by the supplier (or third-party vendor) and is received by the customer in electronic format.

- **Resolving errors and exceptions:** Error resolution and exception handling become easier and more manageable. Invoices missing the data required by the customer to process the invoice are automatically returned to the supplier for correction before anyone in the customer's organization even sees the invoice. Mistakes in pricing, receiving, etc., are effortlessly identified due to automatic matching of invoice data to source data (e.g., purchasing order, contract, receiving log, etc.). Errors are communicated to the supplier electronically.

- **Routing of invoices for approval:** This process is one of the most troublesome in the procure-to-pay process. Invoices sit on employees' desks, get lost within the organization or are simply not received. AP automation guarantees prompt delivery of invoices to the customer's authorized approver(s) and typically provides back-up with alerts to authorized approvers and their supervisors, reporting of invoices approaching late payment or missed discount opportunities, and, in some cases, forwarding the invoice to the next person



in the chain of command. Unintentional late payments become extinct.

- **Lack of visibility across invoice-to-pay (process):** Paper is cumbersome and difficult to manage, especially when it is touched by many individuals. Once invoice data is electronic, processing can be traced from receipt to payment at the touch of a button. The outstanding liabilities of accounts payable are available and accurate at any point in time.

- **Lost or missing invoices:** Because paper must be physically passed from one person to another, paper invoices are often lost or misplaced. Even once an invoice is processed, paid and filed, it can be difficult and cumbersome to retrieve. Electronic invoices are readily available regardless of where they may be in the approval to pay process. From receipt to archive storage, electronic documents are easily accessible and available at the click of a button.

- **Inability to accurately forecast liabilities:** Because paper must be physically held and the numbers tabulated manually, the forecasts and accruals are tedious and time-consuming to produce. Accuracy is contingent on all invoices being located and examined, which is difficult when invoices are lost or missing. Since many paper invoices are temporarily missing or permanently lost, accounting for the dollars represented on them becomes next to mpossible. Electronic invoices enable more accurate forecasting because not only can all liabilities be identified, but changes to liabilities are automatically updated.

4 Reduce My Cost

The Accounts Payable Network (TAPN) surveyed 411 companies in October 2009 about invoice processing cost.[3] Results were reported by company size, based on the number of employees and ranking (see Chart 3, below).

Larger organizations report an advantage, which TAPN attributed to such factors as economies of scale and the use of automation; however,

Chart 3: The Cost to Process an Invoice by Company Size

Company Size	Best Performers	Middle Performers		Bottom Performers
	1st quartile	2nd quartile	3rd quartile	4th quartile
< 500	$4.13 or less	$4.14 to $8.88	$8.89 to $16.67	Greater than $16.67
500 – 999	$2.25 or less	$2.26 to $5.00	$5.02 to $ 9.80	Greater than $ 9.80
1,000 – 4,999	$3.00 or less	$3.01 to $4.57	$4.58 to $ 8.08	Greater than $ 8.08
5,000 – 9,999	$3.08 or less	$3.09 to $4.39	$4.40 to $ 8.62	Greater than $ 8.62
10,000 +	$1.77 or less	$1.78 to $3.06	$3.07 to $ 9.27	Greater than $ 9.27

The Accounts Payable Network, 2009

a wide range of cost exists among same-size companies. Take for example, companies with less than 500 employees. The cost difference between the top of the 1st and 3rd quartiles to process an invoice is $12.54. For 100,000 invoices, companies in the 3rd quartile are spending $1.25 million dollars more simply to process invoices (see Chart 4, below). On average, companies in the 3rd quartile pay $764,000 more simply to process invoices. If these companies do not automate and improve their processing, they will be unable to compete with those who do – companies in the 1st quartile.

Chart 4: The Cost to Process an Invoice by Company Size

Company Size	Differences in Cost Between Companies in 1st and 3rd Quartiles	Cost Differential for 100,000 Invoices
< 500	$12.54	$1,254,000
500 – 999	$ 7.55	$ 755,000
1,000 – 4,999	$ 5.08	$ 508,000
5,000 – 9,999	$ 5.54	$ 554,000
10,000 +	$ 7.50	$ 750,000

The Accounts Payable Network, 2009 and Gillespie International, 2010

AP automation enables companies to consolidate their AP function either as a centralized or shared service. Because electronic data enables invoice approval to take place anywhere an employee has Internet connectivity, the AP function can take place almost anywhere. Companies who move toward consolidation find that processing cost is even less (see Chart 5, below). Shared service centers typically use more automation technology than centralized AP functions, which lowers cost even more.

When TAPN compared its 2009 survey numbers to its 2007 survey numbers, it found the unsurprising result that the more automation a company used in AP, the lower its cost to process an invoice, and the greater the number of invoices an FTE can handle.

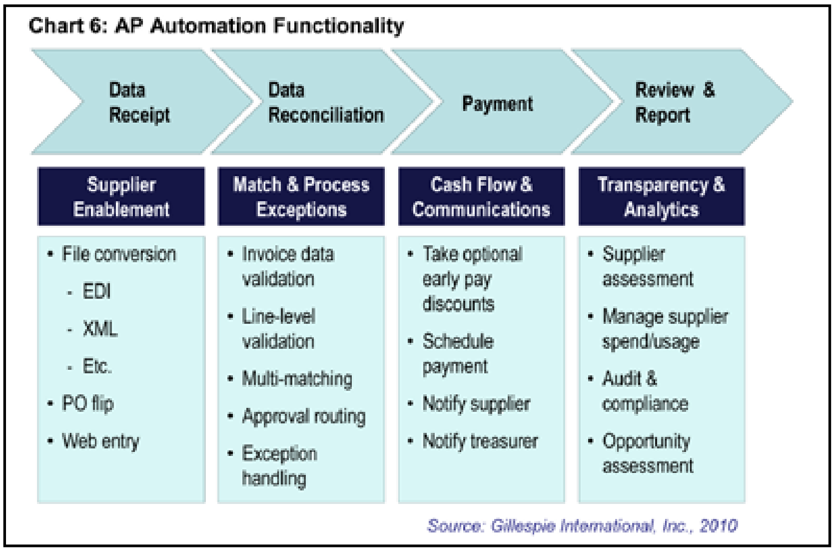
Chart 5: The Cost to Process an invoice by Type of Processing

	Best Performers	Middle Performers		Bottom Performers
	1st quartile	2nd quartile	3rd quartile	4th quartile
All	$2.73 or less	$2.74 to $5.00	$5.01 to $10.00	Greater than $10.00
Shared Service Center	$2.05 or less	$2.06 to $3.98	$3.99 to $ 8.01	Greater than $ 8.01
Centralized AP	$3.18 or less	$3.19 to $5.91	$5.92 to $12.43	Greater than $12.43

The Accounts Payable Network 2009

5 Give Me the Power

Company executives need to clearly understand what constitutes an electronic invoice if they are to receive full benefit from AP automation solutions (see Chart 6, below). Customers receive invoice data in a digitized, electronic format, which should not be confused with the ability to electronically route a scanned paper document. Ideally, once a supplier has sent one file to an e-invoicing vendor, the supplier is able to reach any



customer served by the e-invoicing vendor. Likewise, once a customer is connected to an e-invoice vendor, the customer should be able to connect to any supplier who is also served by the same e-invoicing vendor.

Electronic invoice data is automatically fed into a workflow application for data validation. The invoice must pass the customer's criteria for processing, which means the invoice data is compared to the customer's predefined data requirements (e.g., PO number, contract reference, part number, etc.). If data is missing, the invoice is returned to the supplier for correction. If all data is present, the invoice may be checked for duplication and mathematical errors before being routed to the designated approver(s) or automatically approved based on business rules. Once approved, the invoice data is matched electronically to key validation data (e.g., POs, contracts, receiving log, etc.) to verify validity. Discrepancies are automatically identified and electronically communicated to suppliers for resolution. Once the invoice is determined to be legitimate and accurate, it is approved for payment. Contingent on the payment terms of the invoice, an early payment discount may be applied before the payment is scheduled. Suppliers and corporate treasurers, who may want to make an adjustment to their cash flow forecasting, can be notified of the pending payment.

The accumulated invoice payment data empowers companies to continually assess suppliers and opportunities, while simultaneously managing spend and usage better. AP can use invoice data to determine if suppliers are delivering as promised and whether employees are purchasing as requested, which decreases maverick spending. Moreover, the ability to analyze payment data empowers the procurement or sourcing department to consolidate suppliers and negotiate better deals with them when appropriate. A detailed audit trail exists for all transactions and exceptions to normal processing, such as an override on spending limits, are either prevented or easily identified — depending on the AP automation application. Invoice data is easily retrievable.

6 Show Me the Value

All companies benefit from AP automation. Reported results vary, based on what a company is able to track and monitor. Although all of the benefits apply to all companies, not all companies track or monitor all benefits. The results of automation also vary widely among companies based on the number of invoices processed and the condition of the invoice process pre-automation. The higher the number of invoices processed and the worse the existing AP process prior to automation, the greater the benefit automation brings.

To gain a better understanding of the benefits possible with AP automation, nine Basware case studies were examined and the benefits of adopting AP automation solutions were summarized. The cases studied included six industries serving the U.S., U.K., Europe, Scandinavia, and Australia (see Chart 7, below). The benefits are not averages but the range of individual company benefits, compiled to show the varying impact of AP automation.

All companies were driven to automation for the typical issues associated with paper — hard to manage and expensive to handle — which resulted in high AP processing costs, late payments and the inability to take cash discounts. Moreover, companies were challenged to account for total liabilities, which was further complicated when companies had a broad geographic footprint of participants in the order-to-pay process. Situations were further complicated by multiple ERP applications within organizations. Many organizations reported that while invoice volume was growing, their number of FTEs was declining — adding even more challenges. Many organizations reported being bombarded by calls from suppliers seeking payment status, which elongated processes even more. One finance department was overrun by storage cabinets for storing its many invoices.

Chart 7: AP Automation Case Study Summation

Summation of Drivers for Change	Summation of Benefits From Change
Structure Geographically disbursed buyers, reviewers, approvers and payers Inability to add additional staff to support increasing invoice volume Invoice storage capacity and retrieval challenges **Processing** High cost of invoice processing Inefficient, laborious & lengthy paper process Incorrect and missing invoices Late and missing payments Poor visibility of liabilities Continually receiving queries from suppliers	**Saving & Productivity** Saved up to £400k / U.S. $502k in year one Improved number of invoices processed per FTE, ranging from 70k to 129k/FTE/annum Freed 40% to 50% of FTEs to focus on controls and cost analysis, and accommodated 15% to 30% invoice growth with a reduction of up to four FTEs Drastically shortened the time period to complete month-end accruals and closings Reduced supplier enquiries significantly **Prompt Payments** Decreased invoice cycle time by 75% to 95% Paid up to 85% of invoices within 7-10 days, timely payment with ability to capture supplier discounts **ROI** Achieved ROI within 14 months or less **Other** Improved cash flow and spend management Had full audit history with SOX compliance Eliminated filing cabinets

Source: Basware and Gillespie International, Inc.

Once organizations implemented the Basware automation solution, they saw almost immediate positive results and all expressed extreme satisfaction with AP automation. The benefits reported were:

- **Reduced cost:** Cost savings occur due to more efficient processing. Invoices are routed automatically for approval and are automatically multi-way matched against source data for verification, which prevents overpayments due to incorrect invoices. As a result, the number of invoices processed by an FTE increases dramatically — ranging from 70k to 129k per FTE. Companies can either handle higher invoice volumes without adding additional staff, or free up to 50% of AP staff for more meaningful work, such as focusing on management controls and cost analysis.

- **Decreased cycle processing time:** Automation decreases invoice processing cycle times by 75% to 95%, with most invoices being paid promptly, if not early to capture supplier discounts. Late fees are eliminated and earnings increase due to early payment discounts.

- **Achieved aggressive ROI:** Companies reported achieving ROI within 14 months. In one case, a company achieved 130% ROI in the first year.

- **Condensed reporting time:** Companies reported that the amount of time required to complete month-end accruals or closings reduced drastically—in one case from 2 weeks to 3 days and in another from 2 days to minutes. They also reported immediate retrieval of invoice data — whether the invoice was in process or filed upon completed processing.

- **Lower number of supplier inquiries:** Companies reported significantly lower numbers of calls from suppliers regarding payment status, which also added to increased productivity for the customer and the supplier.

- **Improved cash flow and spend management:** With automation, companies reported improved visibility into their financial supply chain, which enabled them to easily identify outstanding liabilities and better manage spend, improving maverick spending.

- **Compliance for audit and SOX:** Companies reported a full audit history of all transactions and compliance for SOX, making audit requests and inquiries answerable in minutes.

7 Get Me There

To move AP from the role of paper chaser and transaction processor to provider of business intelligence and money manager, five things are required: vision, executive involvement, process redesign, automation and collaborative communication.

- **Vision:** First, think beyond AP. The objective is to remove paper from the entire financial supply chain, of which AP is a part. Someone has to look enterprise-wide at the entire financial supply chain. In many cases, companies form cross-department steering committees to assist with this.

- **Executive involvement:** An executive must be on-board and involved. Executives that are involved need to get other executives engaged, which is necessary when transformation crosses departmental lines. To facilitate such collaboration, steering committees are often used. Research repeatedly shows that companies are more successful at change and optimizing their working capital when a C-level person is engaged. The financial supply chain is complex, especially when international trade is added to the mix. It also touches most, if not all, of the enterprise. This is why vision and executive involvement are required. Someone needs to be looking at the entire process across the company.

- **Process redesign:** Companies have to identify their current processes and improve them — by streamlining and removing redundancies. A good exercise is to rethink the task and why it is being done. (What is the objective of the task? Is there a better way to do it? How can daily activities be improved?) Identify how work in other departments impact AP and how AP impacts others. Trace the data needed by AP to its origin. Ideally, the first occurrence of a data point would flow throughout the entire financial supply chain process without any re-keying into other applications.

- **Automation:** Automation is the enabler. Few results can be achieved without technology. Moreover, processes have to be automated and STP must be incorporated everywhere it makes sense in the entire financial supply chain.

- **Collaborative communication:** AP should work with those involved in the financial supply chain both before and after AP involvement in the process. Work with departments that have a vested interest in AP activities, such as procurement, finance, and treasury. Finance and treasury make good allies. One of the objectives of finance and treasury operations is to optimize cash. One of the best ways to optimize cash is by taking early payment discounts more frequently. AP owns the payment process. Early payment discounts can only be achieved with AP automation that enables invoice processing to occur within the tight time frame of 5 to 8 days. AP should also collaborate with other parties in its corporate financial supply chain to create a more encompassing ROI.

8 Sprint to the Finish

Get executive buy-in by creating a compelling business case. For executives to spend in a tight economic environment, technology purchases need a strong business case with a solid ROI. AP automation has it. And, the ROI becomes even stronger when the benefits to procurement and treasury operations are included. Savvy executives using AP automation should be able to add thousands of dollars (if not millions, depending on the company size) to their corporations' bottom line.

[1]REL, Cash Culture Study, survey conducted summer 2009, results published in BluePrint for a Cash Culture, 2009.

[2]This common payment term permits customers who pay the invoice within 10 days of receipt to take a 2% discount on the invoice. For example, an invoice for $1000 with these terms and paid within ten days would be legally settled with a payment of $980.

[3]TAPN Key Accounts Payable Benchmarks, 2009. Note: TAPN calculated the cost in processing an invoice by taking the monthly cost of accounts payable operations (excluding corporate overhead) and dividing it by the number of invoices processed each month. TAPN took this approach due to its simplicity and few companies taking an activity-based approach to cost calculation. Therefore, actual invoice processing cost is not an exact comparison across companies and varies based on the amount of time spent by the AP department on other supported activities. The report includes the scope of the work performed by the participating AP departments.

About Basware

Basware is the global leader in purchase-to-pay solutions with more than 1,500 customers and 1,000,000 users in over 50 countries around the world. With Basware, organizations can reduce the cost of buying and paying for goods and services and gain visibility and control of their entire spending process by automating manual processes, from sourcing, contract management, purchasing and supplier collaboration to invoice automation.

Basware solutions and services enable substantial cost reductions across businesses and deliver value by providing compliance and control, as well as fast return on investment. The solutions are distributed and implemented, either on site or as a service, in Europe, the US, and Asia-Pacific through an extensive network of Basware offices and business partners. For more information please visit www.basware.com/us.

Basware Inc.
60 Long Ridge Road Ste. 300
Stamford, CT 06902
www.basware.com/us