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White Paper

Finding Cash in a Cash-Strapped World

Article 2 in a series of 3 articles

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Use Accounts Payable to Improve the Financial Supply Chain and Take Treasury to New Heights

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1 Introduction

Adding automation and collaboration between treasury and accounts payable (AP) departments can increase a firm's cash position, provide more detailed and accurate cash flow forecasts, and increase the bottom line. Companies often neglect AP in pursuit of increasing cash and optimizing working capital because AP is often perceived as a cost center responsible merely for sending money out the door. Yet, with the right tools, AP can not only save money and boost the bottom line, it can help the treasury department optimize cash, manage risk, increase ROI, and provide greater visibility into the organization's financial supply chain. Automation and collaboration can free funds held hostage within the organization, reducing the cost of working capital and making organizations less dependent on external capital markets.

2 The Search for Cash

In this cash-strapped and risk-inherent world where credit has become all but non-existent, organizations have shifted back to business basics, which had largely been abandoned during the previously booming economy. Although treasury departments have always been interested in cash balances, there is a new, world-wide recognition that sufficient cash balances are a minimum requirement for sustaining corporate operations in turbulent economic times especially when strong profit performance is difficult to achieve. All stakeholders – executive management teams, shareholders, investors or analysts — have a renewed interest in the amount of cash on hand, because external working capital continues to be expensive, undependable, and hard to get.

Unable to obtain working capital from rising profits, companies are forced to examine internal processes. This has enabled many companies to find substantial cost savings, increase cash-on-hand and operate more efficiently, thus increasing working capital. Liquidity, believed to be about U.S. $2 trillion in the combined U.S., European and Asia Pacific markets alone[1] is trapped within the financial supply chain because of inefficiency. Common tasks — such as purchasing, making payments and managing receivables, cost much more than required and unnecessarily reduce profit.

During late 2009, Aberdeen Group found that the majority of companies it surveyed had increased focus on cash management, even within the previous 12 months. For more than half of the companies surveyed, it was a significant shift of focus.[2] This new focus highlights a challenge that treasury departments have faced for years: accurately assessing and increasing cash-on-hand.

Research finds that four out of five companies cannot forecast their cash flow with even some degree of accuracy,[3] and for those that can forecast accurately, almost 25% confessed that they could only predict their cash position up to a week ahead with confidence (see Chart 1).[4] Research further indicates these difficulties could be due to two factors:

Chart 1: Reasons for Inability to Forecast Cash Flow

Percent Reporting	Findings
40%	Lack of inter-departmental communications
39%	Lack of effort/priority within the business unit when it came to cash forecasting
24%	Inefficient process in place at the subsidiary level

Source: GTnews, Oct 2009

Insufficient data: Data may be unavailable, not stored in a useful format, or impossible to collect in a timely manner. In some cases it simply may not exist, and the level of effort to collect it does not appear to justify its collection. The lack of data is a consistent problem throughout the financial supply chain. Ideally, once data is introduced into a financial supply chain process, the data should be accessible to anyone participating in it. For example, purchase prices, entered at the time of acquisition, should be automatically and electronically available to AP for invoice validation. Likewise, invoice totals should be available to treasury departments for use in cash projections.

Lack of collaboration: Departments often have no formal or structured channel of communication for collaboration, which makes data sharing more difficult. Moreover, treasury departments, business units and operations groups may not realize their reliance on one another and each other's data for their respective missions. Most likely, operations and business units have many priorities and pressures that make data sharing seem insignificant. Data in an electronic format, however, is much more likely to be shared.

The need for cash, compounded with the high expense and scarcity of working capital, have made accurate cash flow forecasting a priority for CFOs. In fact, it was cited as the top concern among CFOs when Duke University's business school surveyed a group of CFOs in 2009 (see Chart 2).[5]

Chart 2: Top Concerns of CFOs About Their Own Companies

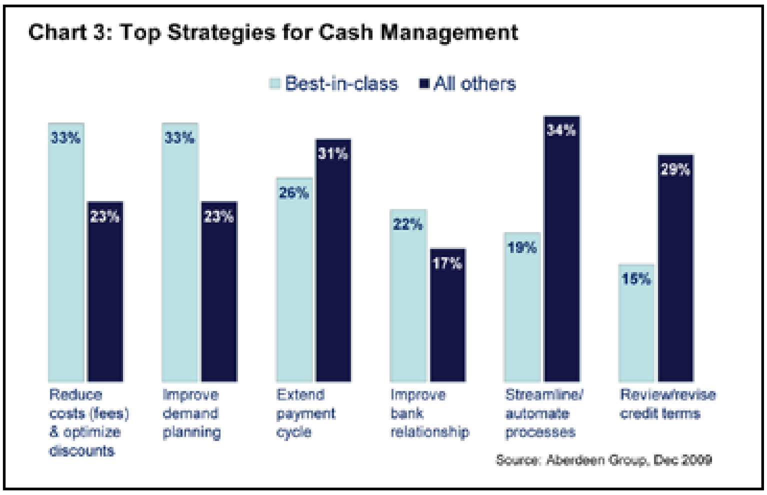
Ranking	Concern
1	Ability to forecast results
2	Working capital management/maintaining morale and productivity
3	Balance sheet awareness

Source: Duke University & CFO Magazine, Sept 2009

3 Automated Accounts Payable Can Improve Cash Position

One of the best strategies to improve cash management identified by top performing companies includes the AP department and requires AP process automation. When companies were asked how to improve cash management, best-in-class firms looked to reduce costs (i.e., bank fees), optimize cash discounts, and improve demand planning (see Chart 3).[6]

To legitimately take payment discounts, invoices must be processed and money received by the supplier quickly, usually within 10 days of the date on the invoice. Companies are typically able to do this only by AP automation and straight-through processing (STP) for invoices. Research by Aberdeen Group found that best-in-class companies were able to process invoices in an average of 2.8 days, whereas the remainder



took an average of 15 to 35 days.[7] This suggests that a large majority of companies are unable to take discounts. Cash discounts are virtually impossible when it takes a company longer than 10 days to process and pay an invoice.

Chart 4: Capturing Cash Discounts

Percent Reporting	Findings
31%	Stated that cash discounts were a huge priority
49%	Considered capturing discounts in exchange for early payment important
80%	Were interested in increasing their discount capture

Source: Aberdeen Group, Q1 2010

Cash discounts, which companies seem to embrace enthusiastically or ignore totally, represent an opportunity for companies to earn significant returns. A standard payment term of 2/10 net 30 has an annualized return of slightly more than 36%, which is exceptionally good in a depressed economy. Research shows that companies are starting to recognize the value of cash discounts. In the first quarter of 2010, Aberdeen Group found that companies were not only interested in cash discounts but wanted to increase the amount of the discount offered for early payment (see Chart 4).[8]

Not only are cash discounts healthy for a company's bottom line, they create a more efficient financial supply chain, which saves money for both customers and suppliers. As customers pay more quickly, suppliers can free working capital by reducing their days sales outstanding (DSO). Suppliers can also decrease the cost of working capital and therefore provide goods at a lower cost to customers. Although customers may be tempted to squeeze their suppliers for longer payment terms, this is inefficient. For example, attendees and speakers at the CFO Magazine Core Concerns Conference in June 2009 agreed that renegotiating payment terms in the current business climate was more challenging than usual. At best, requests to renegotiate were likely to invite close scrutiny — and at worst, it could damage credibility with suppliers, and lead to tense and prolonged debate about creditworthiness.[9]

When the large majority of companies (the 80% that are not best-in-class) were asked how to improve cash management, they cited streamlining and automating processes (see Chart 3). The fact that this is not as much of a priority for best-in-class companies suggests that these companies have embraced automation already, which enables them to reduce costs and take discounts. Automating the invoice approval and payment process not only makes cash discounts achievable, but also prevents late-fee payments that stem from extended invoice processing time and over-payments on invoices due to billing errors. Automation allows data from multiple-source documents such as invoices, purchase orders, contracts and receipt logs to be matched, and can identify maverick spending and invoice overcharges. As a result, companies save 2-3% of total spend from catching invoice errors, and can find additional savings by cutting out rogue spending. Because fewer FTEs are required to perform the invoice function, AP staff should have greater bandwidth to engage in more strategic activity, such as payment analysis, and provide data to the executive team to support operational decisions — such as outsourcing and in-sourcing.

Another benefit of automation is visibility throughout the entire financial supply chain, which reduces risk. Incoming and outgoing cash can be seen more readily and timed more appropriately, making sure sufficient funds are available for operations. Increased visibility can also enable STP among customers, suppliers and financiers. In some cases, suppliers that need to purchase raw materials for manufacturing may automatically have access to short-term lending upon confirmed orders. Suppliers and buyers are further linked when the supplier's credit rating is connected to the customer's credit rating, which in many situations may be better than the supplier's.

4 Automated Accounts Payable Can Improve Cash Management Performance

Aberdeen Group's cash management study in December 2009 looked at performance levels, and ranked companies into three groups: the top 20% (best-in-class), the middle 50% (average) and the bottom 30% (laggards). Aberdeen Group found the following in terms of these companies' tactics and results (see Chart 5).[10]

Chart 5: Mean Performance of Companies in Cash Management

Department	Category	Mean Performance		
		Best	Average	Laggard
Tactics	Streamlined and automated transactions	67%	42%	37%
	Standardized inter-department communications	64%	57%	38%
	Automated reporting on cash held/forecasted	24%	15%	12%
Results	Accuracy of cash flow forecast	84%	68%	51%
	Ability to assess risk	42%	36%	29%

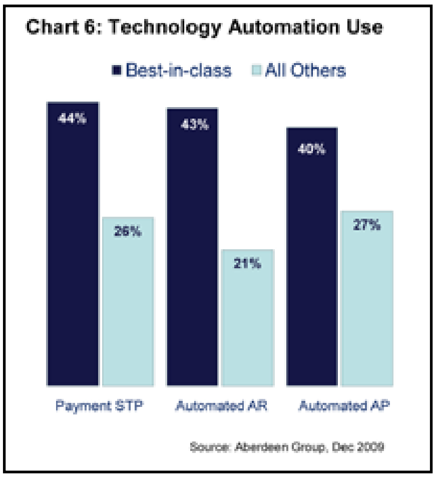
Source: Aberdeen Group, December 2009

Tactics: The most notable distinction between the groups is the percentage of top companies that have streamlined and automated their transactions: High-performing businesses are 81% more likely than laggards to have done so. They are also almost 60% more likely than those in the average category to have automated operational transactions. Streamlined and automated transactions enable executives to maximize cash and minimize risk, due to new visibility throughout the organization. When treasury departments have accurate information on receivables, payables, and inventory, they are able to better optimize cash.

Best-in-class companies are also more likely to have automated interdepartmental communications that pertain to cash, and are 68% more likely than laggards to have done so. Because cash management involves more than just the treasury department, the whole company must be on board, and everyone must become cash-conscious. The treasury department must engage and interact with operations, and set a standard for inter-departmental communication in sharing mutually important data pertaining to cash.

Results: Companies identified as best-in-class are much more likely than the majority to have accurate cash flow data, and are 64% more likely than laggards to have achieved this. Best-in-class companies are 24% more likely than the average category to have accurate cash flow data.

Accurate cash flow data enables organizations to better assess their risk (i.e., liquidity) by ensuring sufficient cash is on-hand for pending expenditures. Best-in-class companies are 44% more likely to clearly assess their risk than laggard counterparts, and 16% more likely to clearly assess risk than average counterparts. Aberdeen also found that the extent of automation across payments, AP and accounts receivable (AR) was nearly standard for best-in-class companies (see Chart 6). AP was not ignored. Best-in-class companies almost uniformly automate AR (43%) and AP (40%) applications with enterprise applications, which suggests best-in-class companies recognize the value of an automated AP department and are empowered by doing so. In fact, best-in-class companies were 48% more likely to have automated their AP application with enterprise applications than average and laggard companies.



5 Treasury Must be an Advocate for Automation

Treasury can improve cash flow accuracy and better optimize working capital using technology and collaboration. Both are required for the treasury department to be successful. As transactions are automated, they become easier to share, making departments more likely to collaborate when it comes to data.

Treasury must be an advocate for process automation and promote financial supply-chain efficiency, making sure that AP is not overlooked. Without AP automation, treasury will not be able to implement several of the strategic steps identified to better manage cash. Payment discounting simply cannot occur without AP automation and most likely, timely reporting of outgoing funds will not occur without AP automation as well.

Timely receipt of data by treasury requires establishing a structured and automated communication channel between treasury and other departments, including AP. Once data is in an electronic format, it is more accessible and easier to share. Once data is readily available, it is much more likely to be received on a timely basis and at more frequent intervals which in turn makes treasury more efficient and enables more accurate cash-flow forecasting.

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[1] REL, CFO Europe and CFO Asia, 2008.
[2] Aberdeen Group, The 3-Part Balancing Act of Cash Management, December 2009.
[3] REL Consultancy Survey, September 2009.
[4] Gtnews Survey, October 2009.
[5] Duke University & CFO Magazine Survey, September 2009.
[6] Aberdeen Group, Dec 2009
[7] Aberdeen Group, September 2008.
[8] Aberdeen Group, eInvoicing Adoption Benchmarking Survey, Q1 2010.
[9] Gillespie International, Increase Profit by Removing Inefficiencies in the Financial Supply Chain, March 2010.
[10] Aberdeen Group, December 2009.

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 visist www.basware.com/us.

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