technology insight

CASH MAXIMIZATION

in Accounts Payable

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For all corporations there are times when it is difficult to meet critical cash requirements. As business revenues ebb and flow or receivables spike and impact cash flow, these issues can have an adverse influence on the primary task of Accounts Payable departments: To pay the bills. Because this remains a prevalent concern for many businesses, it makes the issue of cash maximization a vital one.

When discussing cash optimization or cash maximization, many people automatically assume that the first way to address the issue is to extend payment terms or hold on to cash beyond the payment terms established with suppliers.

However, these approaches are usually reserved for times when cash needs have already become a crisis. Instead of using the same methodology as in a crisis, our recommendations at Technology Insight are based on meeting obligations and identifying the weaknesses that cause cash flow issues.

By focusing on these five key areas, businesses can address cash flow issues constructively:

1. **Controlling & Managing Payment Terms**
2. **Identifying & Preventing Duplicate Payments**
3. **Cleaning Up & Maintaining the Vendor Master File**
4. **Leveraging Procurement Cards for Maximum Benefit**
5. **Standardizing & Expanding PO Usage**

Each section offers a variety of benefits (and a few cautions) in order to manage the potential outcome appropriately. By combining elements from each key area, companies can easily garner substantial advantages, from greater flexibility in cash flow to retained revenues. For those organizations that choose to incorporate all of the suggestions here, they will realize abundant improvements in their cash maximization efforts.

1. CONTROLLING & MANAGING PAYMENT TERMS

Managing payment terms to meet established obligations with vendors is not only about being a good customer; it is also the single best way to control the cash outflow within your organization. While many managers think this is primarily about increasing or lengthening payment terms, the real issue is how to apply the terms that have already been negotiated.

> "Companies who are utilizing properly aligned business practices, should have no more than 10 payment terms."

When quizzed with a few simple questions, *"What are your company's standard payment terms?"* or *"How many payment terms does your company support?"* - most companies know what their standard payment terms are, but when the data is analyzed, we find that for most companies the payment terms that are supposed to be the standard are not. We also find that many companies are consistently maintaining over 30 different payments.

In our experience, companies who are utilizing properly aligned business practices, should have no more than 10 payment terms. This number is easy to manage and sustain, allowing for realistic business processes to support its upkeep.

One of the main issues causing a variance in payment terms is due to the long accounting road which many purchases travel. Because most organizations have a multilevel payment flow, there are a number of areas where a payment term can be modified or entered erroneously. The end result can have a significant impact on cash flow for any company.

The Purchase-to-Payment cycle begins in one department and ends in another. Often these areas are separated physically and intellectually. The first time a payment term for a vendor is entered, it is logged in the Vendor Master File for the Purchasing System and is then fed into a PO. Once the purchase is completed, a vendor invoice arrives with a specific payment term entered, which is likely the supplier's standard payment term. As data processors handle these invoices, they are often overriding any auto-fill payment terms associated with the Vendor Master File so that the invoice is entered exactly as it arrived.

> "Because of these lax processes and procedures around payment terms, millions of dollars in payments are sent out preemptively..."

Then when a payment flag is triggered, it is now tied to the invoice payment term instead of the negotiated payment term that was entered in the Vendor Master File. Because of this, it is critical for companies to address their payment term challenges on multiple levels. When accounts payable departments endeavor to clean up these issues, they often only consider the Vendor Master File or only the Purchasing System, without considering the steps in between that can still cause problems.

Because of these lax processes and procedures around payment terms, millions of dollars in payments are sent out preemptively - sometimes even weeks in advance of what is required. By beginning with addressing payment term discrepancies within your various systems, companies can stem this flow to meet the true negotiated payment terms, not the standard payment term.

Additionally, the same issues surrounding payment terms can affect a business's ability to capitalize on early discount opportunities. First, a business should understand and know what its overall business philosophy is surrounding early payment incentives.

Not all companies embrace the idea of early payment discounts (such as 2%/ Net 10th), as their metrics indicate that the benefit is not commensurate with the impact on overall cash requirements. However, if an organization does take the approach that early discounts are valuable and that utilizing them when offered is expected, Accounts Payable departments must still know how their overall business operations can derail this plan.

Quite often, companies do not have a proper process in place to ensure that invoices are submitted in a timely manner, which supports taking advantage of early payment opportunities. Without the invoice, it cannot be entered and if it isn't entered, it cannot be paid in the period required to realize the payment discount. Understanding each of these components is vital to managing payment terms appropriately and supporting overall cash maximization.

2. IDENTIFYING & PREVENTING DUPLICATE PAYMENTS

Duplicate payments affect every large Accounts Payable department across the country. No matter how properly managed the department is or how stringent their processes are, duplicate payments do occur and impact profits.

As companies are forced to work in an economic environment where cash flow issues push payments out to the wire, there is often an increase in duplicate payments. The reason is simple: as invoices age, a vendor is likely to resubmit the invoice to attempt to trigger a payment. This innocent resubmission causes a number of duplicate payments and requires A/P departments to manage their processes accordingly to negate this risk.

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While most companies use a quality ERP system in conjunction with audit software to identify duplicate payments, these systems catch only a small percentage of errors. Using a radius approach, a standard ERP system will catch the first layer of duplicate payments and additional audit software may double the radius.

Yet, these two systems typically still leave more than half of potential duplicate payments on the table. After realizing this, many companies are forced to engage a Profit Recovery firm to try to recoup the losses. While these firms to provide a great service, the approach is strictly a reactive one, as opposed to a proactive one where the focus is on controlling the outgoing costs and avoiding the need for recoveries at all.

Only by adding an effective solution such as TIC's DataShark Tool, can companies ensure that as many duplicate payments are recovered as possible. Using this type of tool on a continual basis ensures that businesses catch duplicate payments in a reasonable timeframe as to make collection a strong probability. If too much time goes by, there is a risk that vendors will go out of business or file for bankruptcy, making the possibility of recovering a duplicate payment almost impossible.

In addition to using a powerful tool such as DataShark, companies can help to prevent duplicate payments by making sure that their ERP system controls are utilized properly. While most ERP systems arrive with a variety of hard-stop measures incorporated, many companies roll these back and end up in a soft-stop environment, which allows any number of errors to occur. In order to manage and avoid duplicate payments effectively, companies must not only understand their risk level, but also properly employ every control available within their ERP system.

3. CLEANING UP & MAINTAINING THE VENDOR MASTER FILE

Even more important than a variety of other issues, proper maintenance of Vendor Master Files is critical to maximizing cash flow. The Vendor Master file provides multiple levels of controls for maximization of cash: **Payment Terms, Duplicate Payments and Fraud**. Because the Vendor Master File can create a number of areas where duplicate payments might occur, it may negatively affect cash flow.

We recommend a multilevel approach to managing Vendor Master Files, beginning with a comprehensive clean-up process as follows:

STEP #1
Inactivating Vendors Never Used

A great number of vendors exist in company records that, for whatever reason, have never been used. It is important to rid the system of these files. Begin by isolating those vendors in the active list who have never been used.

Next, determine that there are no open PO's associated with those vendors. Checking for open PO's is crucial as a great deal of tension can arise when an order of goods is suddenly received yet the vendor has been mysteriously inactivated. Consider utilizing the purchasing department to crosscheck the list. Once the list has been reduced down to those vendors remaining, go ahead and inactivate them.

STEP #2
Inactivating Vendors Not Used Within 48 (or 36 or 18) Months

Quite a few metrics exist for this component of clean up. Many advocate for a relatively stringent number of 18 months, but it is important to recognize your company's indicators and cycles. We recommend that companies start as high as 48 months and then progressively reduce that number down until it aligns with their organization. Resist the urge to be too aggressive from the on-set as it can create similar departmental tensions as indicated in Step #1. Use the same open PO check before inactivating these unused vendors.

STEP #3
Inactivate Duplicate Vendors

The importance of completing this process in sequence becomes clear in this step as a great deal of work can be accomplished in the first two steps. Many duplicate vendors have been created and never used or used only once - both of which may very likely be addressed in Steps 1 and 2.

To begin the process of identifying the remaining duplicate vendors you will need to go through the records looking for similarities. Technology Insight's DataShark Tool is an option to analyze your records to search for duplications and easily reduces the time required by doing it the "old-fashioned" way. Once the duplicate vendors have been segregated, inactivate those entries.

Once this clean-up is performed, A/P managers must monitor their Vendor Master Files consistently as follows:

- **Monthly Inactivation of Vendors:** Applying Steps 1 and 2 of the Vendor Master File Cleanse on a consistent basis (monthly is ideal) will transform cleaning up Vendor Master Files from the typical "special projects" approach to a methodical maintenance process.
- **Tracking and Analysis of Additions/Changes:** By implementing a tracking process to see who is adding new Vendor Master Files or making changes, companies are better able to address process failures to the appropriate staff member or department. Specifically, organizations should pay close attention to changes in payment terms which could push back payment dates to far sooner than needed.

By cleaning up and maintaining vendor master files to ensure their accuracy, businesses can also benefit from maximizing their cash flow through reduced duplicate payments and increased ability to recoup any unavoidable erroneous payments.

4. LEVERAGING PROCUREMENT CARDS FOR MAXIMUM BENEFIT

Over the last ten years, the use of procurement cards has increased, going far beyond their original intent as a simple way to handle payment of small purchases (often less than $500.00) quickly and easily.

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Now, as organizations have embraced p-cards and their flexibility, they are now being used for much larger purchases (sometimes up to $25,000.00) and even some large recurring payments (such as rent and utilities).

By using procurement cards, an organization can naturally extend payment terms, sometimes up to 30-45 days beyond what would be required with a typical invoice process.

Because of their purchasing power, companies have also learned to leverage every incentive card issuers offer, taking full advantage of those benefits. These include rebates, cash back rewards and online retailer discount portals, all of which provide a great return to companies. Beyond these tangible benefits, A/P managers also understand that p-card transactions can automate some data entry tasks that would typically be required in a traditional invoice process.

In order to use procurement cards in the best way possible, companies should consider these key points:

- In reviewing spend analysis, companies should identify vendors who have low dollar, yet high volume invoice traffic. By converting specific suppliers with these metrics to p-card payments, they can immediately realize a 30-45 day payment extension.
- Identifying those vendors that are currently being paid with multiple payment types (such as both invoice and p-card) and modifying those

relationships to use just one payment type. Over time, using multiple payment formats can lead to an increased duplicate payment rate and other error-producing conflicts.

- Procurement card data should be analyzed to monitor purchase activity by Merchant Category Code (MCC). Reports that isolate purchases by MCC code are an ideal way to identify non-standard or fraudulent activity.
- Reporting should be utilized which aggregates both p-card and invoice spend in order to understand the true total purchases. This data is invaluable in contract negotiations and in identifying missed contract incentives.

As procurement cards continue to increase in usage, taking advantage of every opportunity they offer is essential. By recognizing their purchasing power and other benefits, organizations can capitalize in many ways.

5. STANDARDIZING & EXPANDING PO USAGE

When used in conjunction with strong business processes, Purchase Orders can offer a number of advantages to businesses intending to optimize their cash flow. Because PO's add another level of documentation to the purchasing cycle, increasing their use can automatically create more standardization for Accounts Payable departments.

Through the use of PO's, other components that directly affect the cash flow cycle can be illuminated. By using PO's, there is an increased level of visibility to upcoming cash requirements, which offers the ability to forecast with greater regularity and accuracy. As orders are placed and then fulfilled, a PO can signal upcoming cash disbursement needs long before invoices appear. This then becomes a powerful tool in planning cash expenditures to maximize flexibility.

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Using PO's also presents opportunities to bring greater consistency to vendor processes. Through detailed reporting, A/P managers are able to implement and monitor certain vendor requirements such as mandatory PO's for all purchases over a certain floor or the consistent use of specified payment terms. Comprehensive reporting, such as those included with the DataShark Tool, can identify these non-adherence issues long before they result in payment errors.

Increasing documentation via PO's has a number of constructive effects on cash flow and contributes to an overall alignment of business processes that serve to strengthen operations. By understanding this impact, corporations can implement changes to support better cash flow.

Because every company understands the importance of cash maximization, it remains a top issue in the business world. From the impact of duplicate payments to accurately meeting payment terms, a number of factors influence the way cash flows out of any Accounts Payable department. In order to meet the on-going challenges presented by this part of the purchasing cycle, Accounts Payable professionals must equip themselves with every tool and resource available. By implementing the key points included in this report, companies are certain to see an impact on their efforts to optimize company cash positions.

KARL ANDERSSON
Founder & CEO

TECHNOLOGY INSIGHT CORPORATION

Karl Andersson graduated from SUNY Plattsburgh in 1991 with a BS in Accounting and a minor in Computer Science. He then went on to work Coopers & Lybrand (now PricewaterhouseCoopers) where he earned his CPA and CISA.

Then, for the next three years, he was a Manager of Business Process Re-Engineering for the Dexter Corporation. At the time, Dexter was a Fortune 1000 company and Karl was actively involved in international projects in both Europe and Asia. It was during this time that Karl was able to bring all of his education and experience to the table while discerning how data solutions succeed and fail in real world corporate environments. After his time at Dexter, Karl was at Ernst and Young as an Application Controls Consultant for SAP.

After ten years working in the audit and consulting sectors, Karl was convinced that clients could be better served by a company that understood how to deploy targeted solutions instead of static half-measures. By combining his expertise in accounting and computer science, he was able to design a revolutionary software technology which delivers exceptional value to his clients.

Therefore, in 1999 Karl founded Technology Insight Corporation (TIC) and set out to bring laser-sharp result-oriented solutions to the Recovery Audit service industry.

Ever since its beginning, Karl has gathered a team of industry experts to support TIC and its clients with dedication to the core values of professionalism, respect and integrity. His leadership is grounded in TIC's promise to bring sustainable solutions to every organization they work with.

ABOUT TECHNOLOGY INSIGHT CORPORATION

Since 1999, Technology Insight Corporation (TIC) has provided companies with results-oriented solutions to effectively manage every aspect of the Purchase-to-Payment data cycle. By combining revolutionary software technologies with practical root-cause analysis, TIC brings an unprecedented level of value to their clients. TIC understands that millions of dollars are at stake for their clients and is committed to a distinct end result: **To reduce, recover, and redeploy lost profits.**

The foundation of TIC is built upon an innovative approach to Recovery Audit Services. Instead of the one-dimensional services that many other companies provide, TIC dissects each component of the cycle; from spend metrics to vendor master file analysis, in order to produce tangible results. This comprehensive methodology is powered by groundbreaking software which allows extremely large volumes of data from multiple sources to be processed in record time. This level of efficiency means that clients begin to see recovery in as little as 30 days.

Recovery Audit Services are supported by a proprietary web-based portal which allows TIC to perform most tasks off-site while still providing real-time results to clients 24/7. Additionally, TIC believes so strongly in a true partnership with their clients that Recovery Audit Services are contingency fee based - they are paid only when the client realizes a recovery. Even after the audit ends, TIC offers additional solutions to enhance on-going improvements. The DataShark A/P and Supply Chain Tools allow companies to harness their own future data for continuous improvements.

With a reputation built on results, TIC has assembled a team of experts that embody the company's core values of professionalism, respect, and integrity. These values dictate their conduct with every client and bring a new degree of service to the recovery audit industry. Uniting TIC's people power with their process power creates the kind of sustainable solutions that today's organizations demand.

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