

# Strategies that power the potential of A/P optimisation

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## **ABSTRACT**

*This paper focuses on how to align an organisation with best practices to optimise Accounts Payables (A/P) processes to improve working capital position. It references an Aberdeen Group report from September 2013, where business leaders outlined their top priorities:*

- *Operational efficiency and cost containment*
- *CFOs favour technology to better control cash flow and fraud*
- *Companies are not able to process paper-based reviews and approvals in time to capture early pay discounts*

*The paper addresses these top priorities and goes through how to create an effective payment strategy. The process includes supplier segmentation, defining the payment strategy, supplier enrolment and management and ongoing payment strategy management.*

**Keywords:** *working capital, payment strategy, operational efficiency, accounts payable, supplier segmentation, supplier enrolment*

## **INTRODUCTION**

Companies are often focused on growth opportunities and have little time or motivation to optimise back-office accounts payable (A/P) processes. What is often overlooked is that accounts payable is a fundamental function that can provide the stability and working capital to fuel growth. If not managed properly, A/P can inhibit the progression and mobility of an organisation by holding critical people and funds hostage to inefficient processes. Ever-changing demands push and pull in opposing directions as an organisation tries to balance the cultural aspects of the business with the optimisation opportunities of payment processing.

In recent studies, financial leaders outlined their top business/departmental priorities. Among these were cost containment, operational efficiencies and automation.<sup>1</sup>

In that same study, leaders favoured the use of technology to improve processes to better manage cash flow and to help mitigate fraud. They ultimately want to see manual, paper-based processes eliminated with the goal of saving money, improving cash flow and optimising their working capital position.

There are a few fundamental questions that will help you determine a starting point in moving towards increased efficiency.

1. Are your suppliers centrally tracked and regularly maintained in a payment system, including contact information, terms, discounts and payment preferences?
2. Do you use all of the information in your vendor master file to optimise your payment process and to create working capital savings?
3. Have you migrated suppliers to the types of payments that are cost effective for your company?
4. Have you set goals in A/P to maintain a payment strategy that will save money over time and allow you to scale without issue?

Operational efficiency and scalability is achieved when an entire organisation rallies behind a unified supplier management and payment strategy.

A key consideration in recent years is that employees are staying in the workforce longer. Many companies have three, four and even five different generations of people across their employee base and the idea of 'process efficiency' can vary widely across such diverse groups. Some of those employees feel comfortable and 'efficient' with paper and traditional payment management, while others seek automation and paperless processes wherever possible. The challenge comes in getting all of these employees comfortable and supportive of change and process improvements.

How can you align your entire organisation with best practices and optimise your critical payment processes?

## Power the potential of your payment strategy

A true payment strategy works through the culture of an organisation to address the entire organisation's strategy in managing suppliers and payments. If you create and apply a payment strategy properly, you will ensure your critical resources (dollars and people) are being applied to the most strategic and value-added activities to support company growth. Accounts payable staff will spend less time managing inefficient and manual, paper-based processes and you will be able to scale your operations as needed and apply your resources to the growing demands of your company. This can also boost employee morale by taking away mundane tasks and offering the opportunity to learn new skills and to provide variety in daily assignments.

The key steps in creating a payment strategy are:

1. Supplier Segmentation
2. Defining Your Payment Strategy
3. Supplier Enrolment & Management
4. Ongoing Payment Strategy Management

### Payment strategy (n):

A plan to manage payment processes and culture that focuses on payment savings, process efficiency, payment automation and supplier management.

The natural tendency is to tackle each of these components independently. Unfortunately, this approach will not produce optimal results. It is daunting to attempt to tackle all of this on your own. Support from key internal partners is crucial. You will also need to seek assistance from a financial institution that has the experience and ability to tailor a payment strategy to your business and culture. They should help you find the best approach to optimise payments over time and outline best practices for your organisation. A key to success is establishing metrics that will create focus and allow you to track improvements

internally as well as with your financial partners. These metrics vary by organisation but can include things like improved Days Payables Outstanding (DPO), time and cost savings, discount capture rate, savings from process improvements, bank fee savings or commercial card rebate improvement. No matter which elements you choose to track, make sure you measure improvements that align best with your company culture and goals.

Let us review each component of a payment strategy and outline the best practices for implementation.

### Supplier segmentation

While you should be able to use your buying power to dictate payment options, the fact is that suppliers can and often do dictate how they want to be paid. Keep in mind that these vendors are trying to manage their receivables process just like you are trying to manage your payables process. They have costs and goals and are typically focused on how they can receive payment in a timely manner for the least amount of overhead. A key to your success is the ability to track and segment vendors so you can work with them to find the most efficient payment approach. You need to motivate and incentivise suppliers to optimise payment processes with you and this is where a supplier segmentation strategy comes into play.

The following are the best practices in tracking and segmenting your supplier base:

1. Track all suppliers in a centralised enterprise resource planning (ERP) or financial system. Even if you have decentralised business units, centralise all of the supplier data and ensure the following is tracked by supplier:
  - Supplier contact information (address, phone, email, primary contacts, etc.)
  - Location detail
  - Parent company designation
  - Preferred payment method
  - Payment terms and discounts
2. Organise your top suppliers by spend and by total number of transactions. Make sure you identify suppliers that should 'roll-up' to a parent company and aggregate the spend under a parent company record (eg corporate vs. location).
3. Identify your top 10–20 per cent of suppliers by spend, transaction or both. These are vendors that are critical to maintaining your business functions. These relationships should be closely managed and you may want to dedicate a purchasing agent or sourcing manager to these accounts. You should negotiate payment terms and discounts and partner to automate the processing of invoicing and payment.
4. For the remaining list of vendors, group them by payment type (check, ACH, card and wire). Create a 12-month report that includes vendor name, address, payment type, payment term, total number of payments and total dollars paid.
5. Work with a financial institution that has the ability to analyse and segment the file to identify payment best practices by term, payment type and vendor/vendor type.

### Defining your payment strategy

Once you have your suppliers organised and segmented, you are now ready to formalise your payment strategy. Realise that you will not ever be able to move all of your suppliers to a single payment term or type. You need to offer options, and the key is setting those options to provide incentive for the supplier to adopt best practices with you. Create a payment menu and use payment terms that act as incentive. Pay vendors as quickly as possible when they agree to the invoicing and payment options that work best for you. Pay those suppliers that offer early payment discounts first. Next, pay suppliers that are

willing to accept card and then follow that with a slightly longer term for ACH adopters. Check payments should have the longest term, sending the message that this is your least preferred payment option. A sample payment menu is listed below.

<i>Payment Option</i>	<i>Invoice Option</i>	<i>Payment Term</i>
<input type="checkbox"/> ACH with Early Payment Discount	Electronic Only	2% Net 10
<input type="checkbox"/> Commercial Card Payment <i>(Single-use account, Card on File, Purchasing card, etc.)</i>	Electronic Only	Net 15
<input type="checkbox"/> ACH	Electronic Only	Net 20
<input type="checkbox"/> Check	Electronic or Paper	Net 45

Next, harness the creativity of your organisation to brand your payment strategy to sell the concept internally and with your vendors. Use this name as a way to outline the benefits of your program and actively promote the time and cost benefits this strategy offers your company. Work closely with your company executives, marketing, procurement and sourcing, finance, and technology and include them in the project and naming of the program. Make sure they understand the benefits of the program and create champions in each of these areas.

Once you have a strategy and champions in the organisation, you need to roll out your program. Here are a few suggestions to help you get started:

- Work with procurement/sourcing to update contracts/agreements to include the payment menu and verbiage about your payment strategy.
- Create a simple document, card or desk placemat that can be distributed to all of the appropriate employees. This should include key information about your payment program and outline roles and responsibilities by group.

- Provide sample call scripts to A/P and procurement/sourcing as examples of how to promote the program.
- If possible, offer incentives to employees when they are able to 'convert' a certain number of suppliers to ACH or card. (eg For every ten suppliers converted provide a gift card to that employee).

### Supplier enrolment and management

One of the most daunting tasks is the perceived amount of effort required to contact and convert suppliers. Do not let this overwhelm or deter you from moving forward. A number of options and services are available, free of charge, and will help offload the majority of this work from your staff. You should also realise that converting vendors is not a one-time project, but rather something that should take place over time or could be phased in stages. Some financial services providers offer ongoing supplier enrolment campaigns and provide multiple ways to contact suppliers (eg email, phone, web portal). Here is a list of services you should ask for from a financial partner.

- Will they work with you to analyse and segment your vendor file?
- Can they outline the suppliers that are best for ACH, card and check?
- Can they reach out to suppliers on your behalf and will they manage a supplier campaign for you?
- Do they offer an initial single campaign approach or allow for multiple, ongoing campaigns?
- Do they have supplier portal that allows vendors the ability to see your payment menu and choose the best option for them?
- Does the supplier portal allow the vendor the ability to securely share sensitive information for card and ACH enrolment?

- Can they provide you reports and status of suppliers so you can properly update your ERP/financial system?
- What is the cost for them to manage a supplier campaign?

If your financial institution cannot offer all of these options then you may need to find a partner that can accommodate your requirements.

Once you find the right partner, begin with the supplier analysis and segmentation. Take the suppliers that currently pay by check and work with your financial partner to create a plan for a supplier campaign. Provide them with your payment strategy and educate them on how you want the emails and phone calls to be scripted. Outline the type of reporting or information you will require once they identify suppliers ready to convert to a new payment and process. Finalise your plan for the initial supplier campaign as well as your requirements for ongoing supplier outreach.

As the campaign progresses, you should get regular reports/files from your financial provider and then update your ERP/financial system. As suppliers are converted, you will want to make sure your vendor master file is updated and that you pay the supplier accordingly. Also, as a note, when you add new suppliers have them select the payment and term that works best for them. When your procurement/sourcing or A/P staff add that new supplier record, have them update the payment method and the term that was selected. If you add a large number of new suppliers at one time, then leverage the resources of your financial partner to create an outreach campaign for those suppliers.

### **Ongoing payment strategy management**

Now that your payment strategy is in place, it may be tempting to just sit back and enjoy

the compliments you receive as your organisation's new savings and efficiency hero. While you enjoy the praise, you need to make sure it sticks and that the efficiencies can be maintained over time.

Here are the best practices to maintain your strategy and savings over time:

- Define and track key metrics for your payment strategy and include those in your regular financial reviews throughout your organisation.
- Regularly highlight the benefits and savings that have been or will be achieved. One idea could be using a wall in a high-traffic area to promote and outline the people involved and savings achieved as the payment strategy progresses. Celebrate success!
- Make sure key groups are tasked with goals and track their performance based upon the new rules of vendor and payment engagement.
- Ensure key employees in accounts payable and procurement are tasked with performance goals to maintain and manage the payment strategy. These employees will need to review in regular intervals their progress in managing supplier relationships and payments according to your strategy.
- Hold regular semi-annual or annual reviews and identify changes to your vendor management and payment strategy. This should include reviews of your vendor file with your financial provider.
- As supplier needs change, make sure you help them migrate to the best payment option. For example, a supplier may have been converted from check to card and they are now ready to move to ACH. Work with your financial partner to incorporate this into your supplier campaign approach.

### **PUTTING IT ALL TOGETHER**

You now have all the pieces necessary to create your own vendor management and payment strategy. It will require strong

leadership to get the ball rolling but it is worth the investment. You will ensure accounts payable is viewed as a fundamental function managing working capital to fuel growth. Your critical resources (dollars and people) will be applied to the most strategic and value-added activities to support that growth. Less time will be spent managing inefficient and manual, paper-based processes and you will be able to scale your operations as needed. The many generations that make up your employee base will be better aligned to process improvement and optimisation. Ultimately, your payment process will accentuate your company's culture and success by containing costs, creating operational efficiencies and automating processes. Do not miss the chance to work with your financial partner to maintain a strategy that creates savings over time.

## **AUTHOR'S NOTE**

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## **REFERENCE**

(1) Aberdeen Group, September 2013.