2016 AP & Working Capital Report

Unlocking Savings in Accounts Payable with Working Capital Optimization

Q2 2016 | Featuring insights on...

- Current Trends in Working Capital Strategies for Accounts Payable
- The Benefits of Working Capital Optimization Tools
- Dynamic Discounting Management, Supply Chain Financing, and Advanced ePayables
- A Leading Working Capital Software Provider

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Introduction

Working capital tools are very important to a company's financial strategists. As treasurers work to manage their organization's cash flow, many are focusing in back-office departments like Accounts Payable to gain internal savings. In AP, treasurers try to strategically manage supplier payments so that invoices are paid on time and the department can capture early payment discounts. Unfortunately, for companies with manual AP processes, long invoice cycle times, and frequent late payments often make this an unrealistic goal.

Innovative organizations recognize the importance of leveraging working capital tools with AP automation to optimize cash flow and increase savings. Today's premium working capital tools come in the form of Dynamic Discount Management (DDM), supply chain financing (SCF) solutions, and advanced electronic payments tools like Virtual Accounts.

DDM tools allow buyers and suppliers to collaborate on how and when discounts are offered and accepted with a sliding-scale discounting platform. SCF software allows buyers to leverage third-party funding to pay invoices early when their own resources are constrained. Electronic payment tools like Virtual Accounts give buyers the benefits of rebates and stronger payment security, while offering suppliers faster payments. In all, these working capital tools give buying organizations the potential to capture early payment discounts on every invoice. This report serves to educate organizations on the accessibility and benefits of working capital tools.

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Working Capital Challenges

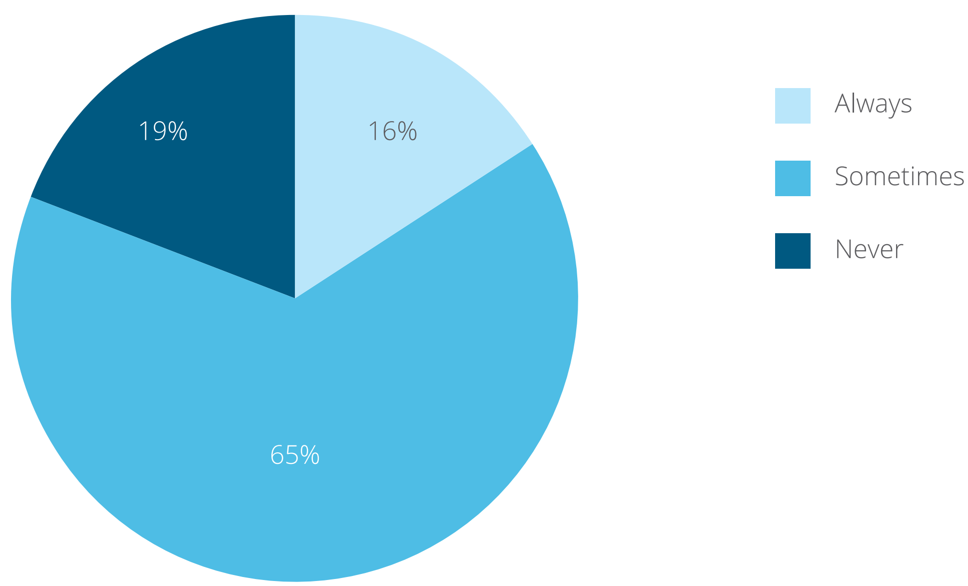
In order to gauge the state of early payment discount capture in the current B2B environment, PayStream Advisors conducted a survey of over 200 AP professionals across several industries and market segments. When asked how often they were able to capture available early payment discounts, the majority of organizations reported they were only able to capture discounts some of the time, see Figure 1.

Figure 1

Most Organizations Are Only Able to Capture Discounts Some of the Time

"How often is your organization able to capture early payment discounts?"

How often most organizations are able to capture early payment discounts



PayStream has found that most North American organizations' manual AP and payment processes lead to high invoice approval times, averaging between 10 and 25 days depending on the organization's industry and business structure. Lengthy approval cycles can lead to a host of problems, including frequent late payments. Research shows that long approval times are the most common reason that organizations are unable to consistently capture early payment discounts, see Figure 2.

Leading causes of missed early payment discounts

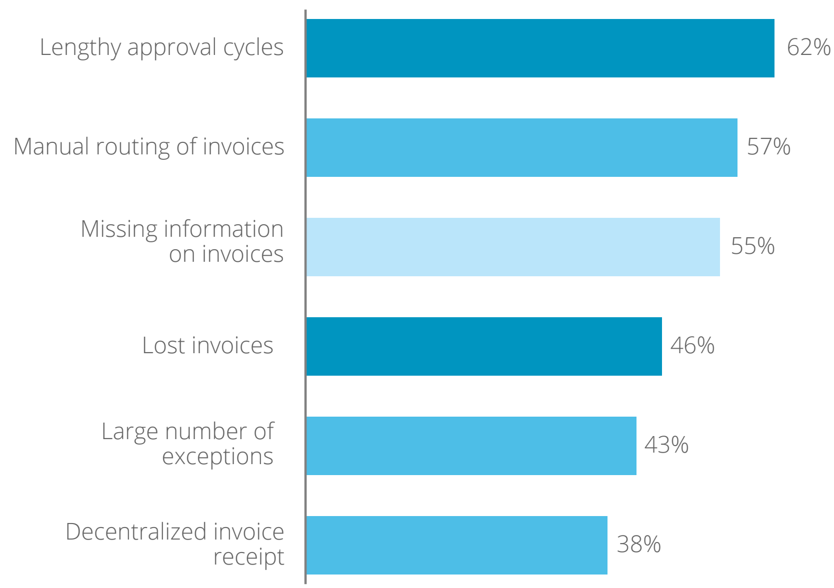


Figure 2

Lengthy Approval Cycles, Manual Procedures, and Invoice Errors are the Leading Causes of Missed Discounts

"What are the top three problems that lead to late payments and missed discounts at your organization?"

When asked about their methods for capturing discounts, most organizations report that they are not using working capital strategies, see Figure 3. The majority of organizations simply capture discounts on invoices that they are able to pay on time.

Leading methods used to achieve early payment discounts or rebates

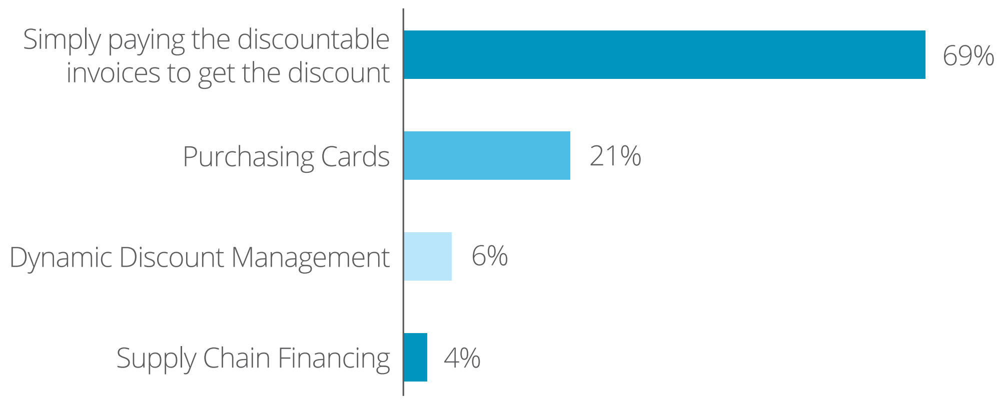


Figure 3

Most Organizations Capture Discounts On a Case-by-Case Basis

"Which of the following methods does your company use to achieve discounts or rebates? (Please select all that apply)"

The second-most common tool for capturing discounts is purchasing cards. Because it streamlines payments and improves cycle times, this method is slightly more effective than manual methods for capturing discounts. However, purchasing cards (p-cards) alone are insufficient in terms of payment security and reconciliation, and many organizations experience resistance to p-cards from their suppliers. These suppliers feel purchasing card transaction fees are too high, and they prefer checks and other payments methods that are not as timely or secure for buyers.

The discount capture tools with the lowest adoption rates, DDM and SCF, are also the ones that have proven to be the most effective for capturing early payment discounts. PayStream's research indicates that adopters of DDM and SCF software can capture discounts on up to 20-30 percent of their invoices, which can result to millions in savings for some companies. As an example, consider a middle-market organization with 300 million in annual spend. If that organization were able to capture a 1 percent discount on 25 percent of that spend, they would gain $750,000 in annual savings, ceteris paribus to supplier segmentation and invoice size.

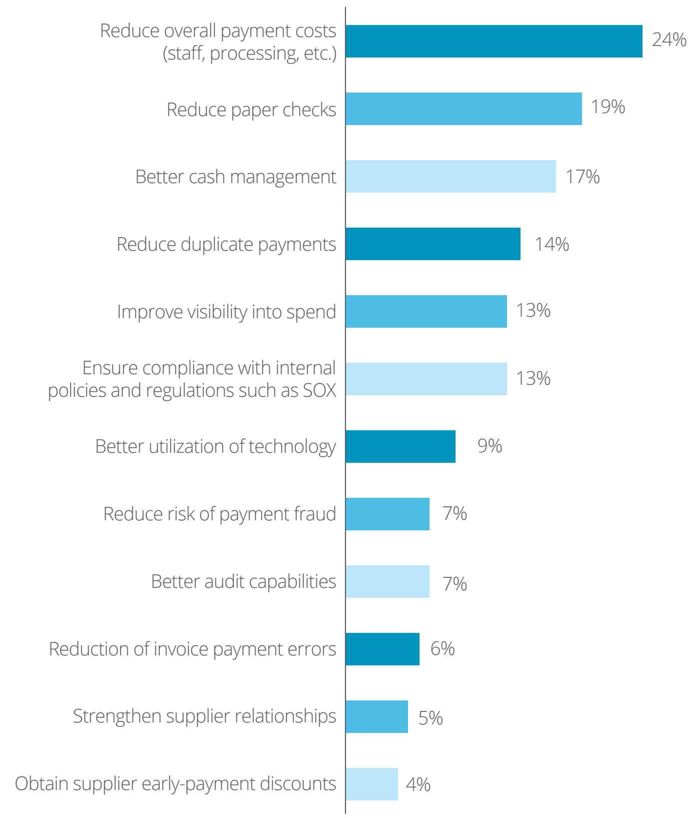
Despite enormous opportunities for savings, most organizations do not even consider discount capture a priority in their process improvements. In fact, only a small portion (4 percent) of survey respondents considered it among their top payment management goals, see Figure 4.

Figure 4

Most Organizations Do Not Consider Discount Capture a Process Improvement Priority

"What are your organization's top three payment-related goals?"

Organizations' top three payment-related goals



PayStream attributes the low adoption rates of DDM and SCF software to poor market education of the solutions' accessibility and possible savings. Organizations with mostly manual processes focus primarily on improving efficiency and reducing costs—if they can capture more early payment discounts as a result of improved processes, it is simply a fortunate result. However, what many companies fail to realize is how easily they can offset the costs of AP processing with working capital solutions.

Today's working capital tools are easy to integrate with existing AP processes and systems, and many are bundled with advanced AP automation tools that make adoption easier and more financially viable. The following sections outline the features, functionality, and accessibility of today's leading working capital solutions.

Working Capital Tools

Working capital tools accelerate the exchange of information between trading partners, provide improved visibility into the status of invoices, and bring more control over financial transactions—all of which promotes higher supplier participation in discounting initiatives and more savings for buyers. These tools are available through AP automation tools or add-on solutions that integrate seamlessly with existing invoice automation systems.

Dynamic Discounting Management

Dynamic Discounting Management software leverages the speed and efficiency of AP automation to unlock cash flow for both buyers and suppliers. Instead of using static discount terms such as "2% 10, net 30", DDM solutions offer invoice discounts based on variable rates. Early payment discounts decrease as payment deadlines approach, enabling buyers and suppliers to set and select discounts according to their own business and financial requirements.

There are a few different Dynamic Discounting models and features. For example, sliding-scale discounting is a common method that offers automatic discounts on a predefined set of invoices, starting high but decreasing as the invoice due date approaches. Other Dynamic Discounting strategies offer a collaborative approach that takes into account suppliers' financial needs, giving them control of APRs and terms. Some solutions allow buying organizations to choose between both recurring or one-off discounts, and many give buyers the ability to segment suppliers and discount schemes according to supplier sizes, geography, spend, and other characteristics.

Often, organizations cannot capture discounts because they have limited visibility into the discounts available, and they are unable to effectively collaborate with their suppliers to gain additional discounts. DDM solutions are designed to reveal every possible savings opportunity by allowing buyers to view discount terms and upcoming due dates at any time within the terms window. DDM also gives comprehensive control of discounts to suppliers, providing them with interactive tools that enable them to designate which invoices are eligible for discounts and for what type of discount.

DDM solutions are also useful for gaining participation from suppliers that did not previously offer discounts. Research shows that organizations without DDM software are typically only offered discounts by 1 to 5 percent of their suppliers, see Figure 5. PayStream attributes this low rate to buyers' history of late payments, and to suppliers' lack of communication tools or visibility into invoice approval times. However, according to survey results, more suppliers offer organizations discounts when they use a DDM solution.

Figure 5

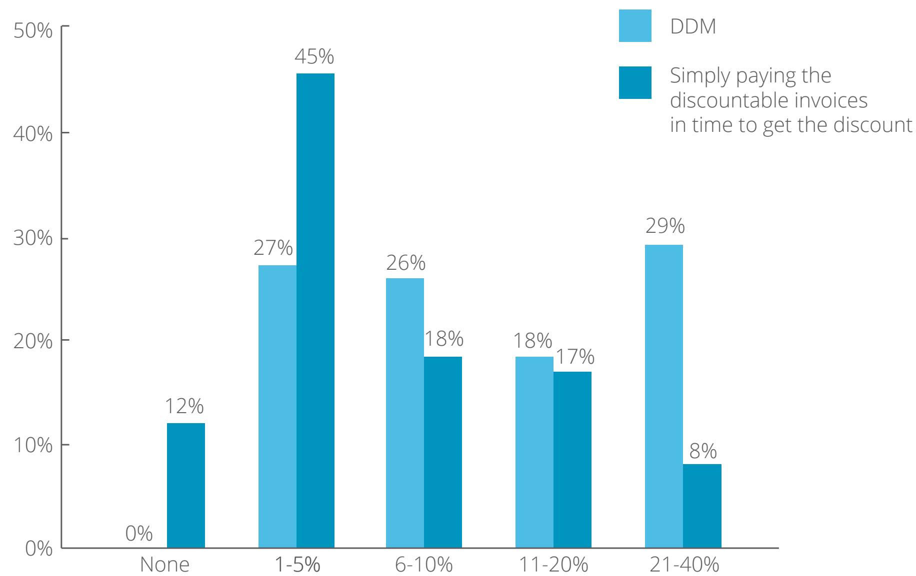
Organizations Using DDM Solutions Are Offered More Discounts from Their Suppliers

"What percentage of your suppliers offer you an early payment discount?"

&

"Which of the following methods does your company use to achieve discounts?"

Percentage of suppliers that offer discounts based on level of buyers' discount automation



This increase in offered discounts occurs partly because many DDM providers offer supplier onboarding services upon buyers' implementation of a solution, educating the suppliers on the benefits and uses of the program and walking them through registration. In addition, DDM solutions offer greater visibility into the length of invoice approval times and give suppliers more choices in how they can offer discounts, further increasing their willingness to participate.

Supply Chain Financing

Despite the benefits of DDM software, some buying organizations still hesitate to use DDM solutions because they fear they will not have the cash flow to consistently offer early payment to their suppliers. Fortunately, today's working capital solution providers offer many funding possibilities through supply chain financing, ensuring that a company's budget does not affect its ability to capture savings.

Funding for discounts traditionally comes from a buyer's capital, but supply chain financing opens payments to competitive bids and invites banks and third-party funders to participate. Participation from third parties such as hedge funds is growing as word spreads of its available returns and relatively low risk. SCF is a very strategic method for optimizing working capital, especially for businesses with complex, widespread supply chains. For example, SCF allows buyers to more easily fund purchases to suppliers from countries where credit is difficult to come by.

Early payments can be lucrative for large suppliers who have cash flow needs, as the discount rates associated with early payments are generally lower than the finance rates of short-term loans. Cash-strapped buyers who have other priorities—such as a monthly revolve—or those who are unable to budget their DPO, generally split the returns from a SCF solution, while third parties get a short-term (under 56 days) return well over 100 basis points.

Supply chain financing may come from the working capital applications in invoice automation software, or through supplementary working capital platforms that integrate with existing financial systems. SCF solutions are just as accessible as DDM solutions and are often displayed on the same platforms, offering the same accessibility and interactive features to suppliers. In addition, just as DDM adoption leads to more available discounts from suppliers, SCF software also increases suppliers' willingness to offer discounts. For those suppliers that did not offer discounts because of their experiences with frequent late payments, SCF solutions return discounting's profitability and strategic value.

Advanced ePayables

Efficient payment management and discount capture are closely related, and innovative organizations recognize the importance of strengthening this relationship through electronic payment solutions. ePayment solutions are critical to dynamic discounting for many reasons, including an accelerated payment cycle and the elimination of costs associated with printing and mailing checks. When an organization mails a check to pay an invoice, several days are lost in mail delivery and dropbox times, thus delaying the payment and minimizing the early payment discount opportunity. Alternatively, with a card payment the invoice is paid and the discount is captured on the same day. ePayments increase savings as they reduce payment cycle times.

Electronic payments come in a variety of different forms, including commercial cards, Virtual Accounts (VA), Automated Clearing House (ACH), and wire transfers. Purchasing cards (p-cards) are one of the most common—and easiest to implement—forms of electronic payments, and they are among the most widely-used tools for discount capture. However, many suppliers are resistant to accepting p-card payments because of the relatively high and inflexible transaction fees.

Although p-cards are more widely-used, Virtual Accounts are among the most effective payment methods for enhancing working capital programs. Virtual Accounts (sometimes called Single-Use Accounts) are payment card numbers issued by a bank under a card network and are used to settle invoices after approval. In 2014, Virtual Account payments became the fastest-growing segment of the ePayments landscape. With Virtual Accounts, suppliers can initiate the payment either via virtual terminal or as a direct deposit into a bank account.

Virtual Account payments allow buyers to time payments and take advantage of early payment discounts. They also provide cost savings, revenue generation, and security features not available with typical p-card payments. With a Virtual Account, a buyer can potentially "triple-dip": they can gain early payment discounts, earn card volume rebates, and take advantage of the grace period between purchase and monthly statement dates. ePayment solutions like Virtual Accounts also have benefits in other AP and supplier-related functions, such as vendor self-service options, collaborative dispute resolution, quick delivery of remittance information, and assistance with compliance and auditing.

Additional AP Savings

Working capital solutions are incredibly effective for freeing up cash flow, improving the bottom line, and bringing strategic value to AP operations. However, with the right tools, organizations can leverage working capital software to achieve even more savings in their supplier payments.

Innovative organizations should consider a holistic AP automation solution that either includes or can successfully integrate with working capital solutions. The speed at which invoices are received, routed, and approved by AP is vital for capturing early payment discounts. Electronic invoices—such as those generated directly from a purchase order or originated electronically via vendor portal or eInvoicing network—optimize this process, as does invoice workflow automation. DDM and other working capital applications are built into or can be leveraged with most electronic invoice management solutions on the market today.

The type of electronic payment tool a company uses is also important for improving working capital, as is developing an optimized payment strategy. In order to help organizations to become "perfect payers," PayStream has developed the Perfect Payment Index™ (PPI). This tool helps organizations create an optimized payment strategy with a variety of payment methods that satisfy the diverse needs of their suppliers. The PPI identifies weak spots in existing processes so that organizations can restructure their payment management strategies. It also allows organizations to create tiered payment timelines for their suppliers that incentivize cooperation and increase cash flow. The ultimate goal is to give buyers the ability to make a perfect payment—one that is made on time, uses the cheapest payment method possible, and achieves the highest possible discount.

Table 1

The Perfect Payment Index

Perfect Payment Index (PPI)™
% on time • % paid electronically • % of discount potential captured
95% • 95% • 95% = 85.7%
The PPI strives to balance the payment efficiency and working capital needs of buyers and suppliers

Table 2

The Perfect Payment Index

The Perfect Payment Index™

	Company			
Payment Discounts / Incentives	**1**	**2**	**3**	**4**
% Paid on Time (< 60 Days)	92%	92%	93%	91%
% Paid Electronically (ACH or Card)	55%	52%	39%	68%
% of Potential Discounts Captured	32%	76%	26%	74%
Perfect Payment Index	16.2%	36.4%	9.4%	45.8%

Working capital solutions are not only important for optimizing buyers' internal resources, but they are also beneficial to suppliers and supply chain health. While eliminating manual AP processes and reducing processing costs is essential for any competitive organization, treasurers and other key decision makers should not overlook the strategic value of also adopting working capital solutions. These tools are easy to use, simple to implement, and can unleash savings far beyond those achieved solely with general AP automation.

In order to help organizations make an educated decision in their search for working capital software, the following profile showcases the diverse working capital and AP offerings of one of the market's leading AP automation and working capital solution providers.

Inspyrus

Inspyrus is a business software development company that specializes in streamlining finance and procurement operations for large, medium, and small enterprises. Founded in 2007, Inspyrus released its first AP automation software offering—Inspyrus Invoice Automation—three years later. It went on to partner with Oracle Corporation in 2013 and became the ERP company's go-to-market solution for AP automation. Since then, Inspyrus has expanded its offerings to include fully integrated Dynamic Discounting and supplier enablement solutions, with plans to include Working Capital Management in the summer of 2016.

Founded	2007
Headquarters	San Carlos, CA
Other Locations	Pune, India
Number of Employees	40+
Number of Customers	36
Target Verticals	All
Awards / Recognitions	Oracle, TekStream, AurionPro, PWC.

Solution Functionality

The Inspyrus solution includes three core products: Invoice Automation, Dynamic Discounting, and Supplier Central. Additional offerings include eInvoicing, 360° Analytics, and pre-built integrations with third-party ERP and procurement systems.

Inspyrus offers real-time integration with all major ERP systems, including Oracle E-Business Suite, SAP, Oracle JD Edwards, Oracle PeopleSoft, Oracle Fusion Applications, Infor, IBM Maximo, and Microsoft Dynamics. These ERP integrations allow Inspyrus to use clients' business rules, general ledger accounts, project accounting structures, accounting rules, tolerances, matching rules, and other variables. In addition, once invoices or vouchers are paid in the ERP, that information is automatically imported into the Inspyrus system for analytics and reporting.

Inspyrus also offers multi-ERP integration support, facilitating connections to multiple ERP systems from a single instance of the Inspyrus application. All necessary information transfer is facilitated through real-time interaction with the ERP system(s) of record, eliminating the need for batch operations, periodic data uploads or downloads, or maintaining multiple copies of data.

The solution's browser-based design allows users to access the full system from any mobile device, while invoice approvals can be performed directly within a mobile device's email application. In May 2016, the solution will provide native iOS and Android applications for invoice approvals, GL coding for non-PO invoices, AP supervisor functions like workload balancing and invoice review, and KPIs for finance management. All Inspyrus solutions can be deployed on-premise, in the cloud, or via a hybrid model.

Invoice Management Integration

With Inspyrus Invoice Automation, Inspyrus customers see invoices processed and ready for payment in an average of 2.1 days. The solution supports many different electronic invoice formats, including EDI, XML, cXML, and CSV. In addition, the solution offers suppliers invoicing options through web entry via Supplier Central, direct file upload, or the ability send an invoice file via email to the customer. After invoices are in the system, the solution also offers specialized workflow support for a variety of business documents, including non-PO invoices, credit memos, recurring invoices, prepayments, and check requests.

Inspyrus Invoice Automation automates 2- and 3-way matching, and the solution's real-time integration with ERP systems eliminates invoice exceptions or holds. When transactions are posted to the ERP system, all required GL, payments, discount, procurement, and logistics data is also automatically posted.

Working Capital Services

Inspyrus supports a buyer-funded discount model with the flexibility of cash-pool management. A third-party financing model for buyers and suppliers will be incorporated into the product in the summer of 2016.

With the Inspyrus Dynamic Discounting solution, buyers can map suppliers into custom discount tiers based on specific criteria such as size, propensity to offer discount, industry, cost of capital, or spend type. Discount tiers represent APRs for the discounts, and are measured on a sliding scale until the payment due date. Another discounting feature allows buyers to create a cash pool for each week, month, quarter, or year and limit the amount of early payments made to suppliers based on that cash pool. Buyers can also use special work queues to prioritize processing and approval of discounted invoices vs. non-discounted invoices, thereby ensuring the highest possible early payment discount.

Inspyrus provides suppliers with a simple application within which they can view statuses of invoice and payments, and make requests for early payments of invoices. Suppliers have a variety of options: they can choose to be automatically for all their invoices; they can selectively request early payment for a given invoice or selected invoices; or they can request certain amounts of cash on a given date and allow the Inspyrus Dynamic Discounting solution to calculate the optimal discount amount. Because Inspyrus' three core products are fully integrated, suppliers do not need to wait for the invoice to be approved and vouchered in the ERP system before they can request early payment, thereby maximizing early payment discounts.

Reporting and Analytics

Inspyrus 360° Analytics provides a rich user experience for reporting and analytics, giving instant access to complete information on invoices, payments, discounts, penalties, suppliers, PO coverage, cycle times, user workload, and tardiness. The analytics option is designed for the CFO and controller, and for the finance management, AP, and procurement teams, and it provides detailed workflow status and history, both at a macro level and by individual transactions. Users also have the ability to track the level of automation that the solution is achieving in its discount management processes in real time. The solution includes over 80 out-of-the-box reports, including KPIs, Discount Management, Invoices in Progress, Completed Invoices, Process Metrics, and Invoice Audit. The solution also offers several reports for analyzing supplier activity, allowing users to see high-volume vendors by transactions, vendors causing long invoice processing times, vendors taking advantage of early payments, and vendors with low PO coverage.

Implementation and Pricing

Inspyrus' pricing structure varies by the solutions purchased and how the customer chooses to bundle the offerings. Implementation times range from 1 to 10 weeks, depending on the size of the customer and the method of deployment (on-premise, cloud, or hybrid).The implementations include several weeks of user acceptance and super user testing and training, as well as training for IT staff (for on-premise deployments). Upon completion, Inspyrus provides 2 to 4 weeks of extra support, after which point support is handed over to the Inspyrus Managed Services team. This full-service support offering keeps the application fine-tuned, ensures a high rate of automation, and supports configuration changes requested by business users.

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About PayStream Advisors

PayStream Advisors is a technology research and consulting firm that improves the way companies plan, evaluate, and select emerging technologies to achieve their business objectives. PayStream Advisors assists clients in sorting through the growing complexities of IT applications related to business process automation with the goal of making objective, analytical, and actionable recommendations. Wherever business process automation technology is an issue, PayStream Advisors is there to help. For more information, call (704) 523-7357 or visit us on the web at www.paystreamadvisors.com