



Migrating to an Automated Payables Environment...and Surviving the Implementation!

In today's economic climate, businesses are looking to reduce expenses, improve controls and maximize every last dollar of funding from their internal working capital. The automation of accounts payable can achieve all three of these objectives, and with today's solutions, can be done with targeted investments in process improvement and technology.

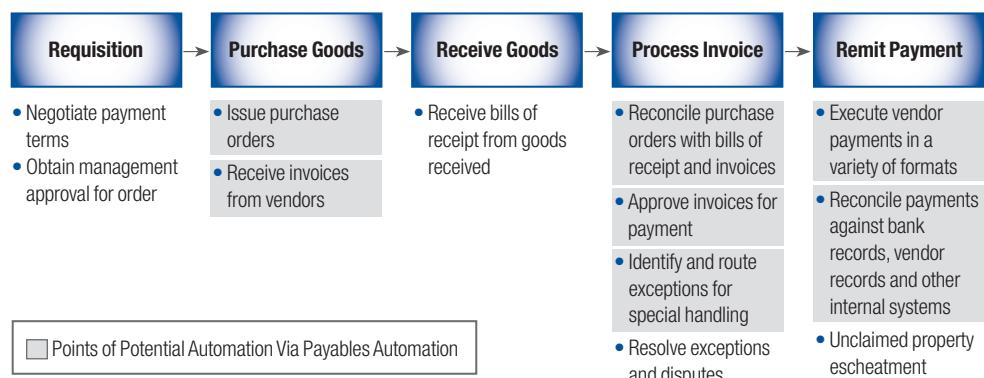
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WHAT IS AUTOMATED ACCOUNTS PAYABLES?

An end-to-end automated payables solution streamlines a buying organization's financial supply chain by automating five core processes:

- 1. Purchase Order Issuance:** Automate the issuance of purchase orders by sending the purchase order data only in electronic formats, thereby eliminating paper and avoiding document imaging processes that often still require manual intervention.
- 2. Invoice Receipt:** Automate invoice receipt by receiving only electronic formats at a line item level. For invoices that remain in paper form, convert them to electronic formats via scanning/OCR and automated data entry.
- 3. Approval of Invoice for Payment:** Automate approval or rejection of supplier payments by electronically matching purchase orders, supplier invoices and bills of receipt by applying automated business rules. Go beyond your competition and assist your procurement team by using a 2-way (PO + Invoice), 3-way (PO + Invoice + Receipt), and 4-way (PO + Invoice + Receipt + Contract) matches by verifying against the underlying contract terms when applicable.
- 4. Execution and Reconciliation of Payment:** Automate payment execution once payments are approved for release by using electronic payments and deliver automated remittance information. Eliminate inefficient payments and leverage more advantageous methods in automation such as procurement cards, buyer-initiated payments, virtual card payments or ACH. Avoid check payments, which only create more paper and are more challenging to reconcile.
- 5. Resolution of Exception & Disputes:** Automate workflow to resolve exceptions and supplier disputes with built-in business rules. Provide tools for immediate notification on noncompliant invoices. Give suppliers full visibility of invoice and payment status.



AUTOMATED PAYABLES—A CRITICAL INVESTMENT

In today's economic environment, payables automation is more valuable than ever. While cost reduction used to be the primary driver for any kind of automation, fiscal uncertainty and credit restraints have driven the other benefits to the forefront as key drivers for adoption.

The primary benefit of an automated payables solution is improved access to working capital. Automated processes can reduce payment processing time from weeks to days, providing organizations with an opportunity to capture supplier trade discounts, maximize purchasing card rebates and utilize payment methods that can potentially extend Days Payable Outstanding (DPO). Better working capital management can allow organizations to:

- Optimize access to liquidity to not only fund ongoing operations, but also build their reserve or strategic cash portfolios
- Maximize their short-term investment portfolio, in terms of size and return
- Better forecast cash flows, enhance visibility and, ultimately, improve financial reporting
- Optimize their short-term debt portfolio through better knowledge of cash flows thus, reducing borrowing costs

Additionally, we cannot underestimate the value of enhanced controls through payables automation. Manual processes, such as payment-to-invoice reconciliation, increase the chance for error and represent greater risks that can impact access to liquidity, financial reporting and trading partner relationships. Additionally, compliance and regulations are very likely to become even more stringent, further underscoring the need for sound controls and audit records.

Automating payables processes can also yield significant cost savings—as much as a two-thirds reduction in per-payment processing costs. Treasury Strategies estimates that the average all-in cost to process a paper payment is over \$10, but approximately \$3.50 for an electronic payment. Automation allows organizations to realize cost savings by:

- Eliminating manual processes, saving staff costs and allowing staff to focus on activities more valuable to the core business
- Reducing time and costs spent on exception handling and researching payments which can lower bank reconciliation items
- Reducing losses from payment fraud (internal and external) and unclaimed property via check escheatment

Finally, payables automation produces a number of qualitative benefits, including better leverage of ERP system investments, facilitated access to required compliance data, more environmentally friendly business practices (reduction in paper) and improved trading partner relationships.

HOW CAN YOU START THE PROCESS?

Selecting the right partner is critical for the successful implementation and deployment of an automated solution. Buying organizations should initially explore all market offerings and then narrow down their list of potential solution partners based on three differentiating factors:

- Breadth of technology;
- Flexibility of implementation; and
- Diversity of payment and working capital solutions.

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A successful solution selection process brings together all key departments and individuals from the start of the project in order to deeply embed a sense of ownership for all stakeholders. All internal parties should provide input to the requirements and needs that are provided to potential providers, clearly defining key objectives, selection criteria and solution requirements.

As your organization evaluates providers, ask the tough questions:

- Can the provider automate the entire order-to-pay cycle?
 - Move invoices to line item electronic process?
 - Convert remaining paper invoices to electronic?

- Ensure auto rejection of invoices not meeting business rules?
- Offer consultative services and analytic tools to make detailed recommendations?
- Can we adopt the solution in stages as our readiness increases?
- Will we have experts working with us at each stage of the implementation to guide us to the right decisions?
- Can the provider supply my treasury team with the right tools they need to manage our firm's working capital?

THE DETAILS THAT LEAD TO SUCCESS

The first generation of automated accounts payable solutions hit the market with a “big bang,” requiring massive changes to IT and trading partner formats and documents. These solutions were more likely to produce implementation cost over-runs than success in realizing automation benefits. As a result, many firms have been hesitant in pursuing payables automation.

We have now moved into the next generation of payables solutions, expanding accessibility to more organizations by eliminating the historical pitfalls to implementation. The best providers are those who have continued to invest in their solutions to make them more scalable to the needs of organizations in all sectors of the economy, developed new tools and best practices for efficient implementation and worked to ensure that true benefits of automating payables are understood.

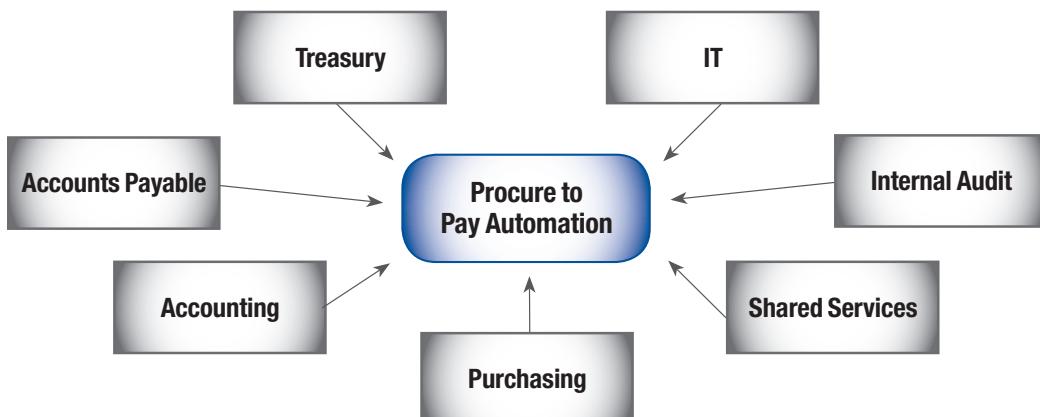
We have identified five ways that organizations can leverage these advancements to avoid implementation risk and make payment automation a reality:

- 1. Ensure Internal Collaboration**
- 2. Identify Process Improvements Before Implementation Begins**
- 3. Partner with an Experienced Relationship Bank**
- 4. Build a Realistic Business Case**
- 5. Scale and Plan the Payables Solution to Your Capacity**

1. Ensure Internal Collaboration

Organizations often fail to identify all the departments and individuals who must participate in the implementation process to ensure success. This is certainly an area where organizations can leverage the experience of their payables solutions partner to help identify the right participants.

All key stakeholders must be included from the beginning of the project starting with the initial planning stages related to the selection of the solution provider. The project team should include representatives from Treasury, Accounts Payable, IT, Accounting, Purchasing/Procurement, Shared Services (if applicable) and Internal Audit. Different departments and individuals will have varying and sometimes conflicting objectives and opinions. It may seem daunting at first to manage multidepartmental efforts along with the implementation itself, but multiple perspectives strengthen the overall process.



It is essential that the project has a clear governance structure and selected leader. By clearly defining the “rules of engagement” (the structure and ground rules for collaboration), the structure of input from each stakeholder and the time commitments required from all involved parties, the project leader can leverage each team member’s unique contributions to optimize the implementation of the selected solution.

2. Identify Process Improvements Before Implementation Begins

With next-generation payables solutions, organizations no longer require significant changes from their trading partners—the focus is on reengineering internal processes. This shift underscores the importance of process improvements in conjunction with implementation.

Before implementing an automated payables solution, buying organizations should review their current payables practices and workflows to identify inefficiencies. While an automated solution can help improve suboptimal processes, most organizations will also need to reengineer their current business processes prior to implementation in order to maximize the solution’s value. Organizations often have legacy processes—“it’s how we’ve always done things”—that when simply made electronic can hinder the full realization of benefits from an automated solution. This can be especially true for handling payables exceptions or in the utilization of multiple payment types.

This is another area where organizations can leverage an objective third party to review processes to provide a fresh perspective. A good solution partner should provide assistance in this area, using their experience and expertise to help quickly and holistically identify process improvements and best practices prior to finalizing a payables solution design.

3. Partner with an Experienced Relationship Bank

First-generation payables solutions required extensive internal resources that many organizations could not secure. However, solution providers now differentiate themselves by the level and quality of the implementation support they provide—making payables solutions more accessible to a greater number of organizations.

Choosing a solution partner with proven implementation processes and project management frameworks is vital. A good partner will assist organizations through the entire process and have experience in managing through many potential obstacles—internal objections, systems compatibility, resource commitments

and others. Experience not only in implementation of the automation solution itself, but in payment, working capital management, and consulting to large organizations is also invaluable. Organizations must consider implementation support as a key differentiator when finalizing their selected solution partner.

A partner should also be able to commit dedicated resources to the implementation process, allowing the organization flexibility in their level of involvement throughout the implementation. Organizations should establish these parameters up front, especially if the partner is expected to manage the entire process.

Finally, your chosen partner must be able to deliver a holistic solution across the entire organization. While many solutions providers tackle select pieces of the solution, the ability to drive efficiency across the entire procure-to-pay process is imperative. Partial solutions do not maximize the value of automation to the broader organization, especially when it comes to optimizing working capital.

4. Build a Realistic Business Case

Many organizations fail to gain resources for an automated payables solution because they have not been able to build a strong enough business case. The key to a comprehensive business case is to align expected benefits with broader organizational objectives such as:

- Increased Process Efficiencies
- Improved Working Capital Metrics
- Reduced Risks
- Enhanced Controls and Vendor Management
- Strengthened Supplier Management Capability

Organizations should align expected benefits and costs with these broader goals to strengthen the presentation to senior management and increase access to required resources. In today’s environment, organizations must also assess and quantify the potential risks of not automating payables—what are the potential opportunities for loss, fraud or errors?

Working with a solution provider that has proven experience in building strong business cases is essential to the success of any payables solution implementation. In addition to quantifying potential benefits, a strong business case also demonstrates qualitative benefits in a compelling way. An experienced solution partner can provide guidance in building a successful business case, leveraging experience with other organizations and even providing some key metrics (such as average payment cost savings and DPO reductions).

A strong business case should include the following:

Investment Payback

Financial Returns

- Lower Transaction Costs
- Lower Paper Fees
- Decreased Write-offs of Receipts from Lower Exceptions
- Reduced Unclaimed Property Costs
- Lower Operational Losses
- Revenue from Purchasing Card
- Payment Discount Opportunities
- Increased Operations Productivity
- Optimized Payments/Receivables Life Cycle

Relational Benefits

- Enhanced Customer and Partner Interactions
- Optimized integration with Existing Financial Systems
- Improved Working Capital Management
- Increased Productivity from Operational Realignment
- Enhanced Cash Forecasting from More Accurate Data
- Faster Dispute Resolution

Compliance Benefits

- Better Controls and Visibility of Cash Flows
- Reduced Fraud
- Easier Access to History for Audit Purposes
- Facilitation of Compliance Requirements

Investment Commitments

Programming Resources

- IT Integration with Existing Systems
- Bank Integration
- Electronic Invoice and Payments Conversion of Suppliers

Implementation Focus Areas

- Payment and Bank Account Reconciliation
- Data Mapping
- Supplier Relationships
- Organizational Cultural and Process Shift
- Invoice and Payment Window



As the following chart* shows, one organization recently identified substantial process efficiencies and opportunities for working capital optimization:

Eligible Spend: \$1 billion		
Invoice Volume Assumption: 500,000		
Solution	Process Efficiencies	Working Capital Optimization
Supplier Finance	\$30,000	\$5,500,000
Invoice Automation	\$2,400,000	—
Discount Capture	\$100,000	\$3,100,000
Buyer-Initiated Purchase Card Rebate	\$200,000	\$900,000
Total Potential Benefit	\$2,730,000	\$9,500,000

* Chart assumptions based on studies from Hackett, Aberdeen, IOMA, and Paystream
Supplier Finance Savings: extension of DPO 30 days; 9% WACC; eligible spend of \$700MM
Net Saving invoicing processing: \$5.25 per invoice
Net Saving payment processing: \$0.80 per invoice
Discount Capture: For every \$1BN in spend, \$3MM in discount capture
Buyer Initiated Purchase Card Rebate: 85 bps for \$80MM in spend

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5. Scale and Plan the Payables Solution to Your Capacity

Automating Payables may appear to be a one-time, all-or-nothing proposition. However, the right solution should allow you to segment your implementation process into manageable chunks. Organizations have taken a variety of approaches to implementation by focusing on one or a combination of a:

- Single division or business unit
- Targeted group of suppliers
- Solution functionality (for example, invoice receipt only or PO delivery only)
- Payment and settlement focused
- Working capital focused

Taking a phased approach will allow you to review progress and determine the impact of the new solution on the organization before rolling it out on a wider basis. An organization does not have to automate their entire payables processes, but can select the core components.

Whether an organization decides to use a phased approach or a “big bang” approach, they need to create a comprehensive project plan to effectively manage costs, time and resources during an implementation. The plan must be dynamic, allowing for anticipated and unexpected changes to the people or processes involved. A good plan includes these core components:

- Project objectives
- Detailed project steps that are clearly defined and identified as critical path where applicable
- Identification of interdependencies among project steps and resources
- Assignment of resources by each detailed step
- Timeline, including critical deadlines
- Contingency plan for anticipated/possible changes

As simple as it may sound, using the project plan to manage resources is essential—simply creating a detailed plan and then setting it aside does not help the implementation process. A project plan should be a dynamic, “living” document that the project manager revisits on a daily basis to assess actual versus planned progress. Active management of the project plan also allows the team to identify potential problems and derive solutions before minor issues become major hindrances to a successful implementation.

A detailed project plan also helps organizations understand their capacity for managing implementations. If the plan requires more resources than an organization can support, the right solution provider will be able to offer scalable solutions that provide a better fit for implementation capacity.

CONCLUSION

An automated payables solution that addresses accounts payable, the suppliers’ accounts receivable, and account matching and reconciliation provides for a more efficient process, lower costs and increased working capital. Even with numerous benefits, many organizations hesitate when deciding to implement an automated payables solution. Fears of implementation challenges, including integration and a strained internal staff, prevent many from ultimately deciding to pursue a more streamlined process.

Partnering with the right solution provider is critical to ensuring that implementation challenges are met and overcome. Leveraging their knowledge from past implementations to develop a strong business case as well as their resources to decrease internal organizational strain will result in an easier implementation process and a more effective automated payables solution. Not only do they leverage past implementations, but today’s providers have developed more scalable solutions that offer a customized implementation approach to fit the size and budget of nearly any organization. Now is the time to consider how you can implement an automated payables solution and choose the solution partner that provides the knowledge, experience and expertise to ensure a successful implementation.