IN ATTENDANCE (L-R):
MODERATOR:
Peter Shadbolt, Editor, *Corporate Treasurer*

PARTICIPANTS:
Olivia, Leong, Head of Business Solutions, Asia Pacific, Visa

Irene Robinson, Head of Transactional Solutions – Institutional, Government & Education, NAB

Anthony Jones,Head of Business Solutions Australia and New Zealand, Visa AP (Australia)

Mahesh Krishnamurthy, Treasury Manager, Linfox Logisitics

Gabby Adam, Head of Finance, Victoria International Container Terminal

Jukka Rinta, Product Manager, Product Transformation, NAB

TAKE CONTROL OF YOUR PROCURE TO PAY PROCESSES

Managing payments is a bureaucratic nightmare. Too little oversight and you run the risk of fraud and complete lack of visibility. Too much, and you inhibit your operations.

Extracting more with less is a permanent feature of today's business culture where corporate treasuries are under increasing pressure to deliver results with fewer resources.

Getting greater availability from cash trapped on a balance sheet requires a working capital strategy that will reduce costs and release the liquidity required to fund growth.

While there are numerous ways to streamline processes, accounts receivable, accounts payable, cash management and inventory remain the chief opportunities available to treasury department heads.

As a back-office function, accounts payable doesn't always get the credit it deserves as a driver of growth and competitive advantage, however when it comes to working capital optimisation, increasing Days Payables Outstanding (DPO) can be a core strategy.

Extending payables as long as possible to maximize free cash flow, can release liquidity but too often management will then run the risk of eroding supplier goodwill resulting in more stringent payment terms.

At the same time, paying early can sometimes yield benefits in the form of supplier discounts and rebates, however this is often relevant only for so called large ticket items, leaving much of the indirect spend without realistic options. Strategy is key in these situations where a good working capital culture can turn conflicting outcomes into opportunities.

It's in this area that the accounts payable team, and purchasing and procurement departments, are critical. They must work alongside senior management to build a working capital culture throughout a company.

Ultimately, creating this culture is more than simply processing invoices in a timely manner - it's about taking on a management focus that emphasises importance of optimising payables and freeing up working capital to fuel growth.

Organisational change is rarely easy but fostering a working capital culture can not only enhance the accuracy of cash flow forecasts, it can go a long way to mitigating funding gaps, improving liquidity and driving profits.

The insights gained from improved processes strengthen the negotiating power of an organisation, allowing it to partner with major suppliers to share risk and extend payment terms.

> **CARD PROGRAMMES GIVE TREASURERS FAR MORE PREDICTABILITY THAN THEY WOULD HAVE HAD WITH EXISTING PROGRAMMES**
> Jukka Rinta, NAB

Increasingly, too, technology is taking a front seat as automisation replaces costly manual processes in procure-to-pay (P2P) strategies. Purchase cards (P-cards) are an attractive option, but it is one fraught with difficulties.

Controls for many of these products can traditionally only be enacted post-transaction, leaving finance departments always two steps behind. Also, the process of paying for supplier invoices with cards is not very convenient, usually due to lack of scalable platforms to process these payments automatically.

Most organisations still use traditional purchase orders (PO) and acknowledge their set up is inefficient, particularly in the field of low-value transactions.

The pain points collect in three specific areas: process inefficiency, working capital mismanagement and lack of pre-payment control.

NAB, in partnership with Visa and Fraedom, an expense management platform provider, has launched a new electronic payables solution for Australian clients that goes some way to relieving these pain points.

The solution, called ePayables, essentially integrates customers' existing P2P processes with efficient payments, and allows them to use their card-based payments to access off balance sheet credit lines to cover selected payments.

To discuss how to gain cash control through enhanced P2P processes CorporateTreasurer brought together Gabby Adams, head of finance at Victoria International Container Terminal, and Mahesh Krishnamurthy, treasury manager at Linfox Logistics in a roundtable discussion in Melbourne.

Also at the roundtable were Jukka Rinta, product manager at National Australia Bank, Irene Robinson, head of transactional services at NAB, Anthony Jones, head of business solutions Australia and New Zealand at Visa and Olivia Leong, head of business solutions Asia-Pacific at Visa.

What are the best strategies when it comes to clearing high-volume, low-value payments?

Jukka Rinta: From our research were able to identify

three areas that emerged as problem statements. The first was structured procurement processes. The purchase order is a really good process when you are buying something worth a million dollars, but when you impose that on a transaction of $200 it makes less sense.

The second, lack of cash flow visibility, is best illustrated by an example. We spoke to one of our customers, a head of treasury from a pharmaceutical wholesale company who had $300 million worth of supplier payments every month. Half of that volume went out on the last day of the month, however the volume fluctuated by $50 million from one month to the next. A further challenge was that the accounts payables team couldn't confirm the actual amount to treasury [until] one day before the payments were due.

The options were obviously either keep lots of money in the bank account or alternatively run lean and then before the payments were due make a round of calls to relationship banks to provide short-term coverage.

The third one, which was really interesting, was that our customers felt that they would want to put more spend on their card programmes, using P-Cards to pay for more.

The advantages are obvious – using these cards means the company would receive a statement a few weeks before the payment is needed, providing treasury with plenty of notice of the exact amount required on the due date.

It gives them far more predictability than they would have had with existing processes.

However, the biggest challenge was there wasn't enough trust within organisations. There is of course a credit limit, restricting how much the cardholder has available but almost nothing to control what they are spending it on. Also, credit limits are often static, and are established on a card-by-card basis to allow for the highest expected monthly spend per cardholder, rather than dynamically adjusting to fluctuations in cardholders' spend requirements.

Giving staff members a P-card is like giving them a blank cheque and the only control that comes in is after the transaction. The real call out from this was to build something that had controls on the cards before people were making purchases.... There are no real solutions in that space unless you're resorting to things like prepaid cards, which are no good for cash flow in the first place.

Anthony Jones: In the decade I've worked within payments the three themes or challenges that are identified by corporate clients are control, cash flow, and efficiency. Jukka has already touched on control and there are two aspects to it: there's the control the buyer applies [on their employees] and then there's the control the buyer applies on their supplier to ensure compliance.

When we look at what that means to an organisation it's a question of whom are we making payments to? What's the value of those transactions? How frequent are those transactions? And what are the transactions for? Then you need to look at controls over

Olivia Leong

Anthony Jones

the employee who is making those payments to make sure they're doing the right thing by their employer. The next step is to apply relevant controls to ensure that there is no room for misuse by the supplier.

So there are two parties, at least, that are involved in every transaction and there's an impact: there's a financial impact, there's a process-efficiency impact, there's a control impact on both sides.

I'd be very interested to hear from the corporate side what your problems are and how you are addressing them?

Gabby Adam: We have significant issues around our credit card policies (and) we have a very tight operation through our parent company. Every dollar that goes out of that bank has to be approved by the CEO and the CFO. The CEO can go to $20,000 by himself - that's it. The CFO can go to $10,000. Other than that it's the two of them up to $2 million.

Irene Robinson

Mahesh Krishnamurthy

So it's significant in terms of cramping and trying to deal with that. Then you talk about a credit card programme and you give a credit card, taking your point, to an employee, to a trusted employee, but then how do you control its limit and how do those limits sit within delegated authority?

Mahesh Krishnamurthy: We have a P-Card, which is mainly used for fuel for our truck drivers. But other than that we have very good controls on our credit cards. The card is limited to the type of provider it can be used for. It has to be used at a service station.

Gabby Adam: So it can't be used at the local florist or something like that? So it's blocked at that point? You can control it that way?

Mahesh Krishnamurthy: Yes, in that way we have very good controls.

Gabby Adam: And that works if you've got a very simple band of people doing the same thing. It doesn't work across a group of more senior people. Should an engineering department require $20,000 to fix a crane, for example, we are already at loggerheads as to how we pay for that, given that they have a limit – say, $5,000 – on their card. That's not going to work.

Olivia Leong: What both of you have described is actually why P-Cards have not worked [for some AP functions]. Our clients at NAB got frustrated with this, we could have invested in it and there was a sweet spot for it, but then what happened?

The application of a typical card product is a very consumer-oriented experience, that's the way it works – going to a Starbucks and buying a cup of coffee, for example. But when you think about the work that our teams have to do in finance, in accounts payable, as office managers, it's not a proper purse. And why? These are often not face-to-face transactions.

When we think about card based-payments it's an evolution, they [P-Cards] are at an unevolved stage. What is available now has developed and is a little more viable as far as the way that you are managing those processes to make those supplier payments.

I'll give you an example, don't think about it [P-Card] as a piece of plastic, think about it as a sixteen-digit account number that gives you access to your working capital.

For many plastic doesn't work. It doesn't fit into the user journey of an accounts receivable or accounts payable team.

WHEN WE THINK ABOUT CARD-BASED PAYMENTS, IT'S AN EVOLUTION. WHAT IS AVAILABLE NOW HAS DEVELOPED

Olivia Leong, Visa

How should it work would you say?

To make it work we first had to understand what the challenge was. As an example, matching invoices, POs and payment transactions is one of the biggest challenges faced by companies. Well, if you can give me a solution that can automate three-way matching you get to be the best in the final... For us our role is to be the 'pay now' button but the processes and the challenges we are seeing start there.

Gabby Adam: We have a person who works part-time with us who is educated, not only on the shared service, but also with our business managers to help manage the process because we were getting very long turnarounds in invoice processing, but we're now down to the equivalent of one-and-a-half days average. So we manage that – size limits and what actually needs a PO.

You talked, quite rightly, about a $200 order that needs a PO, definitely $1 million, but $200 doesn't work and that's where we've been trying to use our credit cards when it's a one-off item. When it's $200 every second week that doesn't work either and has to go through accounts payable and therefore does need a PO and does need a budget applied to it. A big piece of it today has been gaining the education to manage that process.

Irene Robinson: I think that as businesses grow you're going to need different types of solutions for different processes and purchasing types. There was a large customer of ours who actually carry a float in their stores, cash, so a P-Card solution actually helped those stores manage but they realised there was an operational risk issue within their own businesses. I think there's a place for those P-Cards within smaller purchases.

Gabby Adam: What was the float used for? Was it a float for the customers?

Irene Robinson: They were going out and doing staff lunch runs - coffees and teas etc. It was petty cash but it solved that particular issue and for that size and type of problem. For that level, P-Card is excellent when you want

AS BUSINESSES GROW, THEY NEED DIFFERENT TYPES OF SOLUTIONS FOR DIFFERENT PROCESSES AND PURCHASING TYPES
Irene Robinson, NAB

authorisation and requisition control. If you think about what we just said with the 16-digit number being a proxy for having an account to make payments, then it does makes sense.

Jukka Rinta: What we've been discussing is very process-oriented, but what about the other side of this issue. Is there a measure from your perspective? If you can postpone payments by a day or a week, does that have value and how do you measure that value?

Mahesh Krishnamurthy: Yes we just talked about the accounts payable and we don't have a PO system most of the time. With our invoices we don't know where they are or who is holding them – it gets brought to accounts payable when it needs to be paid. So there's a payment run every day but we're trying to push that to once a month.

Gabby Adam: We do one a week and we're fairly religious about that.

Mahesh Krishnamurthy: And for cash flow and forecasting purpose accounts, they can't tell me what they're paying Friday until Friday 3 o'clock. They could give me an approximate number Thursday evening. So I get an approximate number one day before, but I need to give my bank notice so that I can draw money.

Jukka Rinta: That sounds familiar.

Mahesh Krishnamurthy: So that's where the challenge comes. You are always having more than is required when there are policies to reduce debt. When I'm asked to project the debt balance, I'm unable to say what it will be because I can't get at the number. What I did was a very exhaustive exercise of doing a looking back (through) historicals. What we first paid looking down into the buckets – payroll, tax and group tax, salary subcontractor payments. Putting those into the buckets – looking back two years, monthly, so you know exactly what you paid.

Gabby Adam: Which is okay if you've got a mature business.

Anthony Jones: And there's change and growth and all of a sudden that historic data becomes less valuable right?

Mahesh Krishnamurthy: Given that there's no more room to grow it's easier and we can go with historical numbers. So every time I get a forecast from our accounts payable/accounts receivable I plug in my numbers as a buffer so I'm always correct. They

Gabby Adam

Jukka Rinta

were giving me a forecast for eight weeks (but) I told them don't do it, it's a waste of time. So the challenge is to get a correct approximate on what we're spending on the payment side

Anthony Jones: So there's a definite desire to increase predictability?

Mahesh Krishnamurthy: Correct.

Jukka Rinta: For companies like yours, an e-Payables facility would give you three weeks' notice – 21 days - instead of your current three hours. If you succeed in decreasing that delay by say two weeks is there a benchmark for that? Do you look at the cost of funds for that? What do you look at? Your ROE or do you look at something else as the benchmark? How do you drive the value-added to those two weeks?

Mahesh Krishnamurthy: So practically what would I do with that money? I would pay back the debt.

Anthony Jones: And so there's a saving involved in paying back that debt. There is a saving that can be made if you can delay payment to suppliers and also to receive payment from your customers sooner.

Mahesh Krishnamurthy: The challenge for us is that some organisations require 30 days payments, some organisations only pay on Monday, some pay only on the 15th of each month some pay on the 20th. So it's a question of matching and taking the step to find out who agreed to these contracts. Different areas execute their own contracts and they keep it in a drawer - no one knows where it is. So putting those processes in place where you know where the documents are is our challenge.

Olivia Leong: So you have to create a joint KPI that runs across everyone. The problem is that people don't want to change because they're afraid they'll lose their jobs, but the reality is that even with automation, you still need people to ensure that the technology is working the way we need it to work.

Visa note to readers:
NAB has developed and launched a new solution, ePayables, that delivers capabilities for organisations to streamline their procure-to-pay processes, gain better control and visibility of their cash flow and extend the traditional P-card value proposition to a wider user base for wider range of transactions without compromising controls, thanks to pre-purchase controls.Firstly Automated invoice payments through the ePayables solution can help improve supplier payment terms and enhance cash flow visibility, and at the same time allow early payments to suppliers. If a customer submits a batch of approved supplier invoices to the system, it will subsequently advise suppliers of approval and provide instructions for them to collect payments using cards.

The new ePayables Procure-to-pay solution allows the accounts payable and procurement teams to streamline a host of processes. Virtual cards are requested using pre-purchase workflow and approval and they are used for payment with Suppliers when ordering goods and services. No POs, and no accounts payables involvement are required. Again, the customer has the benefit of a lengthy interest free payment term through the use of the purchasing card credit facility.