MAKE BUSINESS PAYMENTS PAY

SUPPLY MANAGEMENT INSIDER
IN PARTNERSHIP WITH barclaycard

HOW MUCH DOES IT COST YOU TO PAY OUR SUPPLIERS?

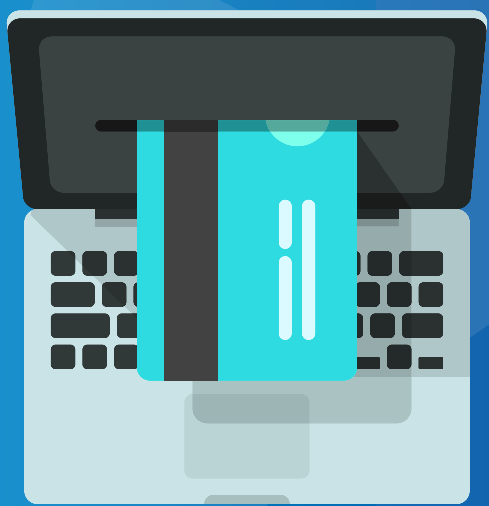
In business, simple questions rarely have simple answers. That is why so many organisations are still struggling to quantify a figure that enables managers to benchmark their company's P2P process.

It's hard for businesses to reduce costs if they don't fully understand them. Answering these questions is the start of a journey that can transform a company's P2P process. This article will show how the use of new mechanisms such as virtual card payments can transform P2P processes, generating significant – and continuing – cost savings. A virtual card, which generates a unique number for each transaction, can eliminate many invoices, reduce the reconciliation workload by 80 per cent and enable you to save resources and time by putting fewer new suppliers on your ERP system.

For British companies, there is an added incentive to re-evaluate the P2P process. In April 2017, the Small Business, Enterprise and Employment Act was strengthened so that large companies (defined as any business with turnover of £36m, at least £18m on their balance sheets and 250 or more employees) have a legal duty to publish information about their payment practices on a central government website. Directors and companies that don't comply could be fined.

The UK government's stated intent is to "name and shame" organisations that take a long time to pay. The issue has become so serious that the government felt compelled to act: the Federation of Small Businesses estimates that late payment contributed to the failure of 50,000 SMEs in 2014, costing the British economy £2.5bn. Companies that position themselves as good corporate citizens will not want to be seen to be ruining smaller businesses through late payments.

> **"The use of new payment mechanisms such as virtual card payments can transform your P2P processes, generating significant – and continuing – cost savings"**



APPLES, BENCHMARKS AND COSTS

The P2P process will not be transformed if businesses settle for "low-hanging fruit", look to the same old areas to make savings (one of the pitfalls of applying the 80/20 rule) and settle for "best practice" based on benchmarking figures that are taken out of context.

Rob Tuckwell, Head of B2B at Barclaycard Commercial, says: "A benchmark is only relevant if you're comparing apples with apples. It's not always clear what companies are factoring in when they calculate these costs, but as a rule, if the figure looks low, you're probably not measuring everything you ought to be. One of the first things we do with a new client is talk them through their payment processes. How many stages are there? How many approvals are required? How many suppliers are critical to their business? Are there low-risk transactions that can be automated? It's easy to focus on unit cost, but when you take in all the other factors, this might not be as accurate as companies would like to think. Often, we discover that no one within the organisation has the complete picture."

The most common metrics businesses seek are the cost per purchase order, the cost per invoice and the cost of the entire P2P process. The measurement of all three metrics has been fiercely debated online in procurement forums. One query – about the typical cost per invoice in the UK – produced wildly varied answers, from less than £2 with an e-procurement system to more than £50*. That doesn't mean the company paying £50 to process an invoice is inefficient. As Tuckwell says: "The variables of the process stages – salaries, location, industry, degree of automation, percentage of invoices received on paper, office overheads, the profile of your suppliers and customers, the level of tail spend (ie spend that is not strategically managed) – can fluctuate dramatically from one company to another."

That said, there seems to be a performance gap, possibly because, although the future

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*Estimate by industry research group Gartner, 2016

APPLES, BENCHMARKS AND COSTS CONT'D

of procurement is already with us, it has been unevenly distributed. Last year, according to an APQC survey of accounts payable practices in the US, the best companies took three days to resolve an invoice error – the worst took seven. The same survey also found that even the best-performing accounts departments were still keying in 42 per cent of their invoices manually into the system. (So much for the paperless office.) Given these findings, it should come as no surprise that the cost of the best-performing accounts departments was 0.04 per cent of revenue, compared to 0.16 per cent for the laggards. At large corporations, that difference in performance could cost millions of pounds.

Understanding these issues is becoming more critical as procurement departments are – just like every other corporate function – being tasked with doing more for less, mitigating risk and creating supply chains that are agile and flexible enough to cope with a greater degree of economic, financial, social and political volatility. In other words, they have better things to do than focus on repetitive processes – for example, reconciling purchase orders to invoices – that could easily be automated.

As procurement departments seek to answer that deceptively simple question "How much does it cost us to pay our suppliers?" the obvious thing to ask is: what are we doing inefficiently?

A less obvious – but equally valid – question would be: what are we doing efficiently that we don't need to be doing at all?

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P2P, B2B AND B2C

Steve Homewood, senior adviser at payment consultancy PayTech, says: "Most companies have three kinds of suppliers: a few who are critical to the business, many with whom they have a lot of small to medium-sized transactions, and a lot of irregular suppliers whose business comes from their tail spend. Most companies will manage those suppliers their business depends on to function well. It is the other two categories of suppliers where a virtual card can make a real difference to the P2P process."

B2B payments are, Homewood says, being transformed – and more companies are starting to realise this. "The internet is everywhere and anywhere, cloud computing is revolutionising ecommerce and, looking at B2C, Amazon is changing the way we buy, pioneering the virtual shopping cart. What's happening in B2C is now happening in B2B, partly because the technology is changing so rapidly that businesses can now have their own online shopping carts. Fifteen years ago, if you wanted to develop one, you'd have to invest a lot of time, money and effort. Now you can have one effectively off the shelf for a few pounds a month."

> **These systems can lighten the burden on the procurement function, giving it time to devote to bigger challenges – negotiating, sourcing suppliers and strengthening relationships**

The shopping cart, combined with an online catalogue, is, Homewood argues, the best way for businesses to manage suppliers that are not critical but with whom they have a lot of transactions. "All procurement needs to do is to negotiate what items they will buy from a supplier and at what price. The supplier will then create an e-catalogue based on those items and prices, which will be specific to that buyer. If an employee at the buyer wants to make a purchase, using a virtual card, they can generate a 16-digit number that is unique to that transaction – one of the added benefits of that being that the order is automatically assigned to a cost centre – and the purchasing process is familiar to anyone who has used Amazon."

These systems can lighten the burden on the procurement function, which doesn't need to intervene unless asked to do so or if monitoring shows up discrepancies. The time-consuming and costly rigmarole of adding every supplier to the ERP system can also be avoided. Small or irregular suppliers can be paid simply and efficiently with a virtual card. That gives procurement time to devote to bigger challenges – negotiating, sourcing suppliers and strengthening relationships with existing ones.

Tail spend has long been a thorn in procurement's side. The mere existence of tail spend – in effect, purchases made by the company with no input from the part of the company that is tasked with managing purchasing – is, for many procurement bosses, an embarrassing anomaly. Many procurement managers are convinced they could save millions of pounds if they brought tail spend under control. Yet such is the pressure on their time and resources, it is hard for them to justify the cost of intervening in every small transaction.

The inevitable result, Tuckwell says, is that companies are bedeviled by a variety of inefficiencies. "Finance and procurement may have different figures. ERP reports do not match the products purchased. More and more suppliers are added to the system every quarter – many of which will only be used once or for very low-value transactions, so it might cost you more to put them on the system than you're spending with them. And you may find that it is difficult to get a clear picture of the purchases the organisation is making," he adds.

Every organisation has three choices when it comes to tail spend. Accept the status quo – but brace yourself for growing inefficiencies to come. Pay lip service to change, possibly by launching a well-publicised initiative from head office. Or make a real effort to manage tail spend with a virtual card that could reduce costs, increase compliance, design purchase policies that are fit for purpose, achieve the visibility required to manage sourcing savings and reduce the number of suppliers being added to – or already on – your ERP system. Managed correctly, Tuckwell says, "this could mean that your users, suppliers and managers are all more satisfied with the process". Changing a tail-spend culture is not the work of a moment, but, for most large companies, there will be millions of reasons to persevere.

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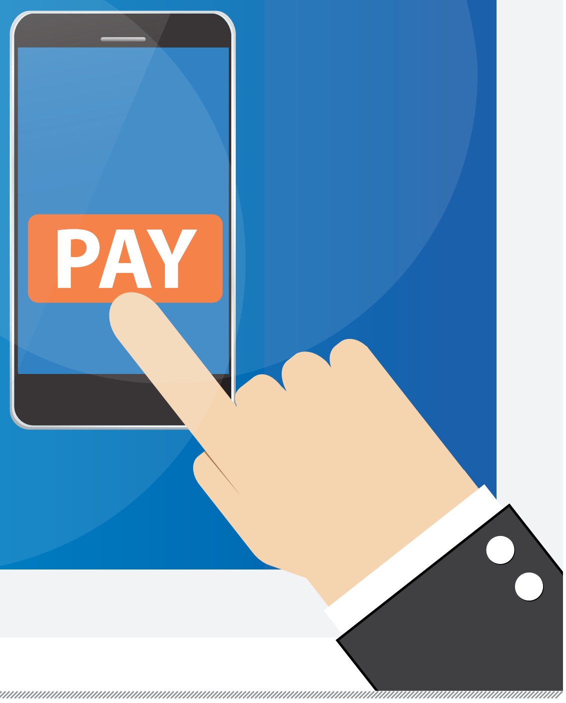
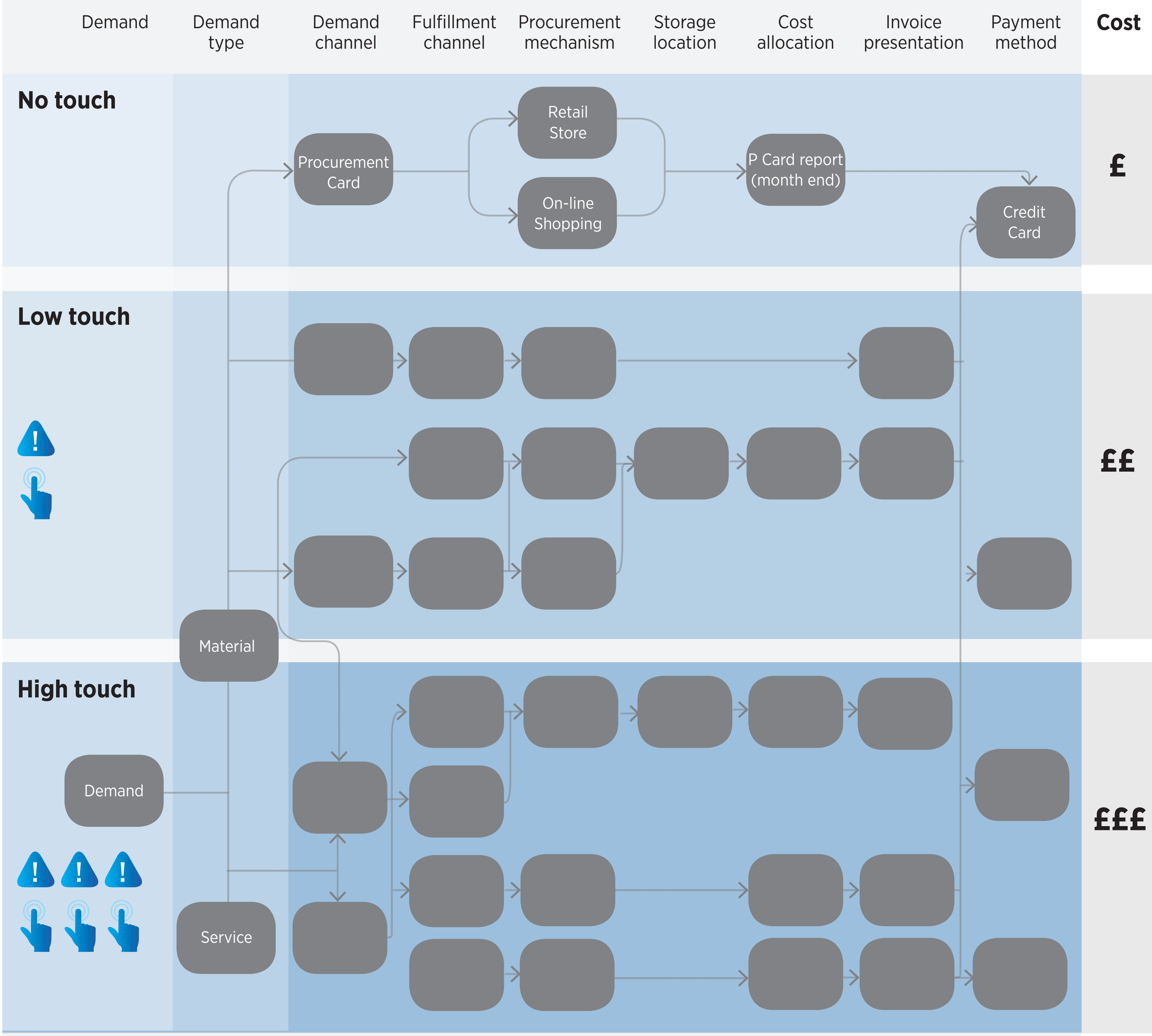


DEMAND MANAGEMENT

High-, low- & no-touch concepts
Demand characteristics

! The more touches - the greater the cost per transaction



! Strategy - to push as many transactions down the low-/no-touch channels

Risk

Organisational Touches

THE TRANSACTION STRATEGY

The collective impact of e-catalogues, shopping carts, the internet, cloud computing and virtual cards can help businesses to take a more strategic, holistic view of their P2P process. As Tuckwell explains, companies can begin to manage demand more efficiently. "Every touch adds a cost to a transaction, so it seems obvious that the more transactions that involve no touch – or a very light touch – the better. That's true, up to a point. But there are some transactions where high touch is appropriate – for example, if you're acquiring a building or sourcing a vital part in the product you are manufacturing – and you will want to ensure that you bring the appropriate level of expertise and scrutiny to those purchases. Yet there are many transactions where human intervention is unnecessary, if not downright counterproductive, and a virtual card can simplify the entire process."

A traditional demand fulfilment channel, by which a company satisfies an end user's requirement for goods or services, could well involve at least eight steps: a requisition is created by the user; the requisition is approved; a purchase order issued; goods are received; the invoice is received; the invoice is approved; payment is made and, finally, the payment instruction is reconciled to the bank statement. Often there is a ninth step – when what is ordered doesn't match what has been delivered or invoiced and the discrepancy has to be rectified. A virtual card gives businesses the chance, where appropriate, to shrink that channel to four steps: the cardholder shops and pays; cardholder receives goods; cardholder submits accounts for the spend and the monthly card statement is settled and reconciled.

The most effective strategy is to ensure that as many transactions as possible are low or no touch. Cost, risk and control all have to be weighed up as procurement departments assess their demand channels – getting the wrong £15 pin to secure a rotor blade, for example, can make a catastrophic difference in the helicopter business – but Tuckwell is convinced that if businesses could step back and see payments and demand through a different lens, they could revolutionise the P2P process, reducing costs and workload for themselves and their suppliers.

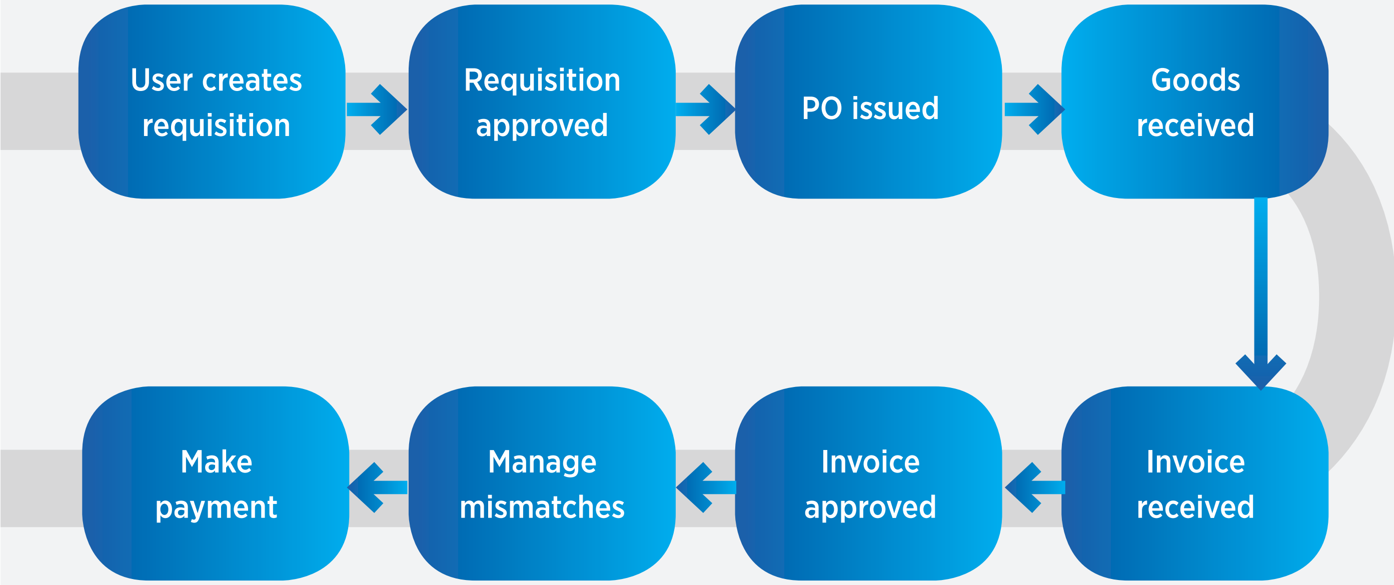
Using Barclaycard's Precisionpay service, companies can pay a supplier today knowing that the money may not be taken out of their account for up to 56 days, depending on where they are in their account cycle. Tuckwell says: "Typically, a company will extend its working capital by 35 to 40 working days – which can be of immense value to the business and its suppliers, who get paid promptly." With this service, the company neither has to make any major changes to the payables process, nor adopt a new technological platform. As Homewood puts it: "This isn't one of those situations where we call it a win-win but only one side actually wins. This genuinely is a win-win."

PayTech runs introductory webinars for corporate or public sector clients. Interested in learning more? Contact Steve@paytech.no

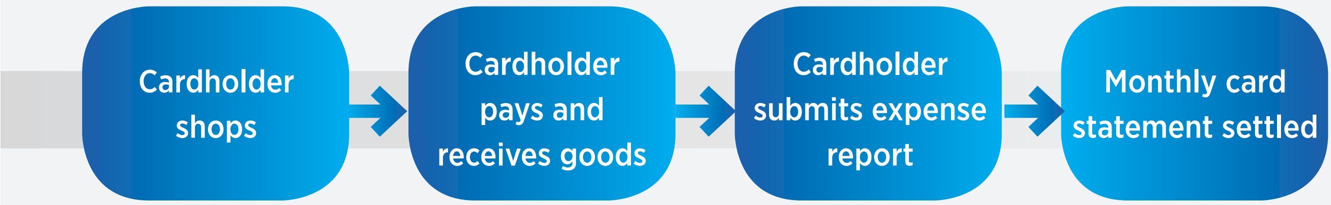
WHAT IS A CHANNEL?

A demand fulfilment channel is a unique sequence of steps taken within an organisation to satisfy end-user requirements for goods or services

An example of steps in a demand fulfilment channel found in many organisations



Where cards have been issued, another demand fulfilment channel might be



Large organisations will have one or more systems configured to support these demand fulfilment processes. The number of channels available within a given organisation will be influenced by

- Type of business (eg manufacturing vs professional services)
- Scale of operations (eg multi-site, multinational)
- Systems maturity
- Method of growth (eg organic vs acquisition)

PAYMENT, PARTNERS AND INNOVATION

Payment issues can easily poison the relationship between buyer and supplier, to the detriment of both. Since the 2007 global economic crisis, cashflow has kept many SME owners awake at night – and no wonder: a UK survey by accountancy firm Sage showed that, in 2015, they were owed £55bn in late payments.

Paying promptly can help your suppliers, make your supply network more resilient and open the door to a more collaborative relationship. In many surveys, a majority of procurement managers have said that they want to work more closely with suppliers to develop innovations that could improve their business. Yet most of them admit that they are not doing so, blaming either their own company culture or lack of time and resource. Liberated from unnecessary chores, procurement departments could turn suppliers into partners in innovation.

The status quo can be comforting. Yet in a global economy being redesigned by digital technology, the old adage "If it ain't broke, don't fix it" is no longer a useful business credo – if it ever was.

Communication didn't seem "broken" before the internet was invented. The conventional P2P process may not seem definitively broken, but it is certainly showing signs of strain. Tuckwell says: "Businesses that don't think afresh about their payment strategy may find themselves at a serious competitive disadvantage – you only have to look to the B2C marketplace to see where this is heading."

With the procurement function under relentless pressure to justify itself, the correct answer to the question "How much does it cost you to pay your suppliers?" has to be: "Less than it did in the past, but more than it will in the future."

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VIRTUAL PAYMENTS

The options offered by Barclaycard Commercial Payments include…

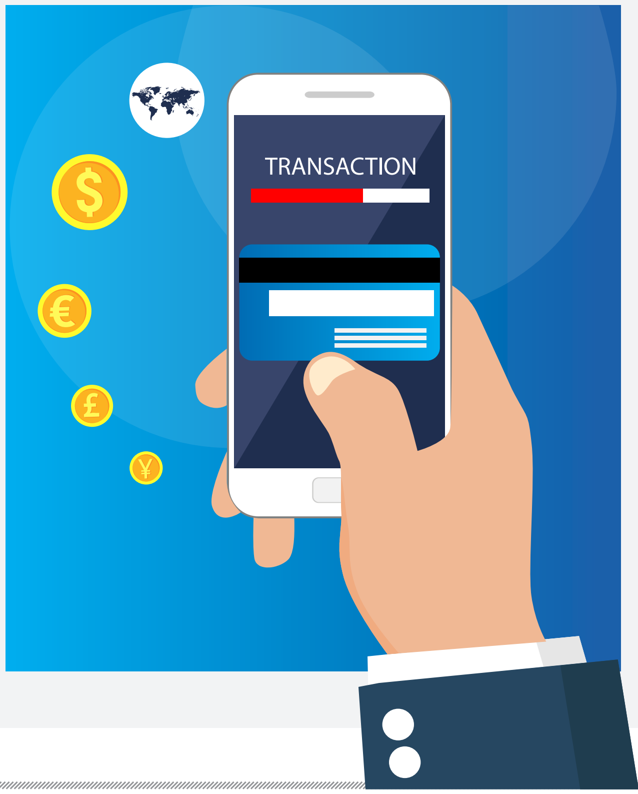
Barclaycard Precisionpay Online virtual card solution. The user logs onto a web portal to generate a single-use, 16-digit number which always will have a date and a defined credit limit matching the purchase request. (The same method is used with Barclaycard's other services: Precisionpay Connect and Precisionpay Direct.) One virtual card is created for each payment to be made.

With this option, purchases can be approved automatically up to an agreed level of spend or be pre-approved before a virtual card number has been generated. The virtual card can then be quoted over the phone, used with an online buying portal, entered into a suppliers site and, in some cases, in face-to-face purchases.

Many organisations will use both options. This system makes it much easier to manage spend than with a plastic card, helps ensure purchases comply with procurement procedures and are transparent, and automatically reconciles purchases to payments. This service is particularly effective for controlling direct and occasional purchases from new or less-regular suppliers.

Barclaycard Precisionpay Connect virtual card is designed for making purchases from strategic suppliers through online catalogues. By integrating seamlessly with existing purchasing processes, it removes the need for paper invoices.

Barclaycard Precisionpay Direct is an alternative to traditional bank payment methods, offering the benefits of virtual cards for organisations that want to retain their purchase-order and invoice process but increase their use of working capital. The finance system automatically initiates payments, through Barclaycard, which are made directly to suppliers' accounts. By settling more efficiently, this system can free up working capital. The buyer can instruct Barclaycard to pay the supplier immediately, but not settle with Barclaycard until the end of their [up to] 56-day account cycle. Bacs offers no such leeway with working capital – the money is deducted from the buyer's account as soon as the purchase is made.



THE KEY QUESTIONS

10 factors to consider before adopting a virtual card*

1. What are the key steps in our P2P process?
2. What are our payment terms?
3. Is the way that we pay always appropriate to the many ways in which we buy?
4. How digital is our P2P process? Are we using e-catalogues?
5. How many Purchase Orders and paper invoices do we still handle?
6. How many suppliers are critical to our business – and who are they?
7. How much does it cost us to put a supplier on the system and maintain it there?
8. How robust is our supplier network? Has it failed in the past year or two?
9. What percentage of our purchases are not made by procurement professionals
10. If our existing P2P process didn't exist, would we create it in the same way?

*Taken from discovery questions commonly used by Barclaycard when developing a Payments Strategy with a customer

ABOUT BARCLAYCARD COMMERCIAL

Barclaycard Commercial is at the forefront of developments in commercial payments, with a 40-year track record of innovations that address the challenges organisations face within their payments processes, as well as the increasing pressure to maximise working capital, increase efficiency and stay in control of payments.

Our consultative approach and broad product portfolio include virtual cards, embedded payment accounts and traditional card solutions, with a range of settlement, integration and online servicing options, and a geographic spread of 107 countries.

www.barclaycard.co.uk/business

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