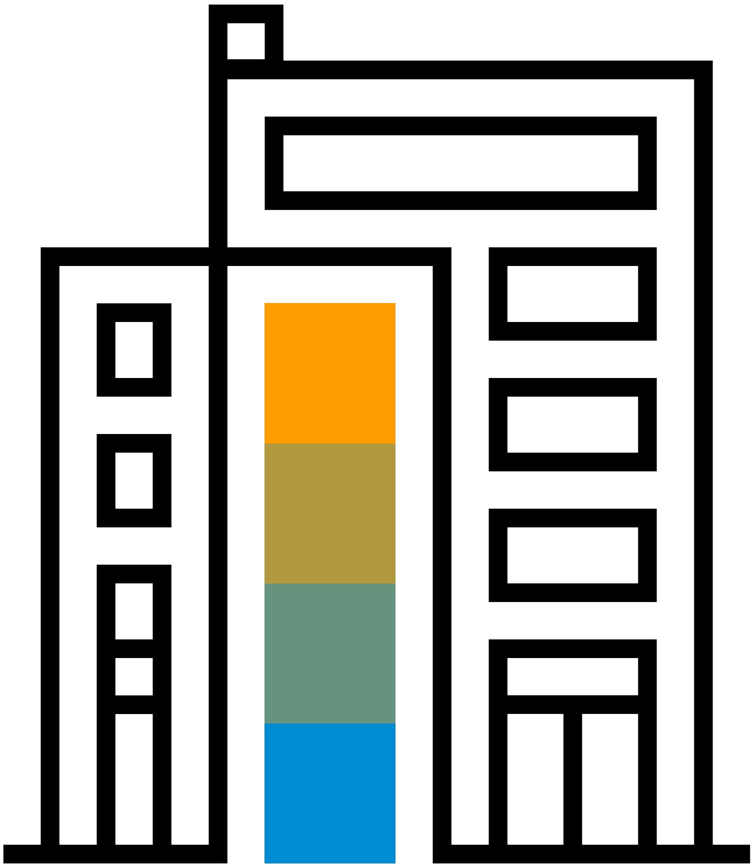
SAP Concur

Working Capital Discussion Paper

Automation and its Impact Working Capital Management



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Introduction

An organisation's cash flow position and the management of working capital are critical to its healthy operation and ongoing success.

Achieving better working capital management isn't possible without first improving the visibility of your organisation's financial position, both now and into the future. Typical companies potentially miss quarterly working capital forecasts by up to 23 percent. For a Global 1000 company with US$29 billion in annual revenue that amounts to up to US$600 million.[1]

Without a clear picture of your organisation's current and future financial position, it's very difficult to make optimal decisions about cash on hand, lines of credit, investments and other factors critical to achieving the organisation's business objectives.

In addition to greater visibility and its impact on forecasting, automation can play an important role in reining in operating costs and improving cash flow by optimising internal processes.

In this whitepaper, we focus on automation in the key areas of accounts payable and invoice management, and touch on the future impact that broader connections through business networks will have on financial management.

Ultimately, by linking together accounts payable technologies with how your organisation pays its suppliers, you can create greater automation, process efficiencies, and working capital optimisation. This whitepaper will show you how

WHAT IS WORKING CAPITAL?

Working capital is a measure of the operating liquidity of an organisation. In other words, the cash it has available or can readily convert to pay for its day-to-day operations. Working capital is critical to all organisations – commercial businesses, not-for-profits and government agencies.

Managing working capital needs to take into account both the short-term and long-term cash position of the organisation, in relation to the ability to service immediate requirements and to be prepared for future operational expenses. A key component of working capital management is the visibility of cash flow. Cash flow visibility is seen as critical to the successful management of liquidity and risk by corporates, allowing CFOs and treasurers make accurate investment decisions, to ensure long-term growth and profitability.

"Working capital or free cash flow is often seen as a quick barometer reading of a company's basic operating health." (Gavin Swindell, Managing Director, Working Capital, The Hackett Group (The Working Capitalist, Spring 2016 issue,)

1. *Working Capital: Successes, Challenges, and 2012 Objectives*, The Hackett Group, Inc.

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Improving Visibility

At a fundamental level, working capital management can be improved by providing financial decision-makers in the business with greater visibility and certainty on spend, for both current and future liabilities.

For organisations with no business network integration and manual accounts payable processes, there is typically a significant delay from the date a non-PO invoice is received by the organisation to when it becomes visible to the CFO. For large organisations with hundreds of suppliers, a lack of visibility on this spend can severely limit the ability of the organisation to make informed decisions, particular in the mid- to long-term.

Cash visibility continues to be a major issue for organisations worldwide. An online survey conducted by Kyriba and the Association of Corporate Treasurers (ACT) in 2015 found that only 22% of companies report having daily visibility into 100% of their cash, and only 19% have similar daily visibility into each of their bank accounts. The results are worse for large companies, with only 14% having complete cash visibility and just 6% having full daily bank account reporting[2].

The survey, conducted with a cross-section of finance and treasury professionals across a broad range of company types and sizes, uncovered lack of visibility is one of the biggest issues for business.

Lack of visibility is also a problem affecting an organisation's ability to make longer term forecasts.

The 2014 Visa Cash Flow Visibility Index study surveyed CFOs and corporate treasurers of leading companies from ten countries across the world including Australia. The study found that 71% of Australian companies don't have visibility on 60-day cash position and 34% don't have visibility on 30-day cash position. Only 8% of Australian organisations have real-time cash visibility. The study found that this lack of real-time visibility and predictability of their cash situation is due to these organisations not having appropriate cash management processes, systems or tools in place.

2. *The Changing Role of the Modern Treasurer*, Kyriba / Association of Corporate Treasurers, 2015 Treasury Survey

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Automating Processes

The first step that organisations can take to automate their accounts payable processes and improve the visibility of their cash position is to capture invoice data as soon as they are received. That makes the captured data immediately visible to the organisation, providing a clear, accurate, and complete view into all current liabilities. More than 50 percent of invoices are still received in paper format and more than a third by email[3], so it's critical that the information on these invoices is captured at the time of receipt, rather than at some later stage in the process.

With early visibility of invoices, the organisation has more time to decide on the best course of action, rather than scrambling to meet the payment schedule. These decisions might include faster payments to those suppliers where the organisation has negotiated early payment discounts. On the other hand, it also gives the organisation more time to negotiate longer payment terms with a supplier. With automation of the process, a set of rules could be applied to the data to determine the best course of action to take, based on the supplier, amount of the invoice, or any other parameters the organisation sets up in the system.

For organisations that also have an automated employee spend management system, that will give them a complete picture not only of all invoices and approved purchases, but also 100 percent visibility on employee spend, rather than waiting for the end of month expense reports to be processed.

This level of visibility on the company's liquidity makes it far easier to make decisions about the company's cash on hand and debt position, and a clear view on how much revenue the business needs to be generating to maintain liquidity.

With greater visibility comes greater confidence in cash flow forecasts, which in turn means more confident financial decisions.

3. Institute of Finance and Management, 2016

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Activating Workflow

Early capture of invoice data enables organisations to establish an automated workflow system to bring down operating costs in processing and paying invoices. With an automated invoice system, Aberdeen Group has calculated that the best-in class organisations average 4.1 days to process an invoice from receipt to approval. That compares to an average of more than 16 days for a manual invoice process. The gap in the cost to process an invoice is even bigger[4].

This time saving gives your organisation's AP team the opportunity for more strategic activities, including negotiating better terms with key suppliers and implementing process enhancements to the system. More than that, the procurement group can take at more holistic approach when negotiating with suppliers, rather than just focusing on lowest cost sourcing. Factors such as standardising contract terms, centralising group procurement functions and working in collaboration with the organisation's treasury team are likely to have a greater positive impact on optimising working capital.

Time savings also enable a company can grow without necessarily adding headcount in non-revenue generating areas of the business like AP, potentially increasing overall business performance.

4. *AP Invoice Management in a Networked Economy*, Aberdeen Group, May 2012

WHAT ARE BUSINESS NETWORKS?

Business networks are a set of Internet-based services delivered by businesses, operating in real-time on an open platform that connects into an extensive partner ecosystem. "The business network links together computers, humans, social media channels, machines, and financials. This blended ecosystem is generating vast opportunities in business and commerce and reinventing the global economy." (*The Evolution And Revolution Of Business Networks*, Forbes, 2 September 2015, by Yingwu Gao, Senior Product Manager, SAP)

Advances in IT – cloud computing, Internet of Things (IoT), big data, open platforms, APIs – have enabled us to bring this seamless connected experience from multiple systems and service providers into the business world. The power of a business network is exponential – with the potential to provide a very deep level of integrated services into an organisation. Extensive partner ecosystems represent a fundamental shift in the way we do business.

"For connected commerce, leveraging the Internet and new connected technologies like mobile, cloud and the Internet of Things is offering networks that can increase business performance and reduce costs while creating competitive advantage. In particular marketplaces create a high performance platform for suppliers and procurement professionals to build collaborative relationships and execute in more efficient and effective ways. The widespread availability of the Internet has created a broad business disruption that is driving change across all business functions. Ubiquitous connectivity and the free flow of information across the open network has opened up unique business models, ways to streamline and operate business processes, new ways of communicating and connecting, and massively scalable ways for creating and sharing content. (Business Networks: The Next Wave of Innovation, IDC, November 2014.)

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Business Networks Scenario: Aircraft Component Maintenance

Engineering and maintenance typically represent more than 10% of an airline's total cost base. Qantas, for example, spends more than $1 billion on engineering and maintenance every year, and its Engineering and Maintenance branch employs some 6,000 personnel from a total global workforce of about 30,000.

Component maintenance costs are a major issue for maintenance departments in airlines all over the world. According to the 2014 Airline Maintenance Cost Executive Summary published by the IATA, components make up 24% of airlines' direct maintenance costs, second only to engine maintenance. Any automation of the process would have an impact on reducing maintenance costs, increasing visibility on spend and improving working capital management.

Sensors are increasingly being built into aircraft components, providing real-time data back to the airline and manufacturers that is being used to indicate when servicing or replacement is required. If this sensor data is integrated with that airline's flight scheduling system, ERP and HR applications, an order could be automatically placed with the supplier for the component parts, and the maintenance crew booked in for installation or servicing, based on the optimal location of the aircraft when that part will become due for replacement. If any members of that maintenance crew need to travel, the system could automatically book any flights and accommodation required. The invoice raised by the supplier would be sent and processed via an automated accounts payable process, following established workflows, and sent to a payment aggregator, to be settled based on pre-agreed payment terms.

As a result of this example of a business network in operation, the airline's financial decision-makers would not only have real-time visibility on spend at all stages of the process, including future costs, all initiated by the aggregated data from component sensors across its fleet.

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Impact on Payment

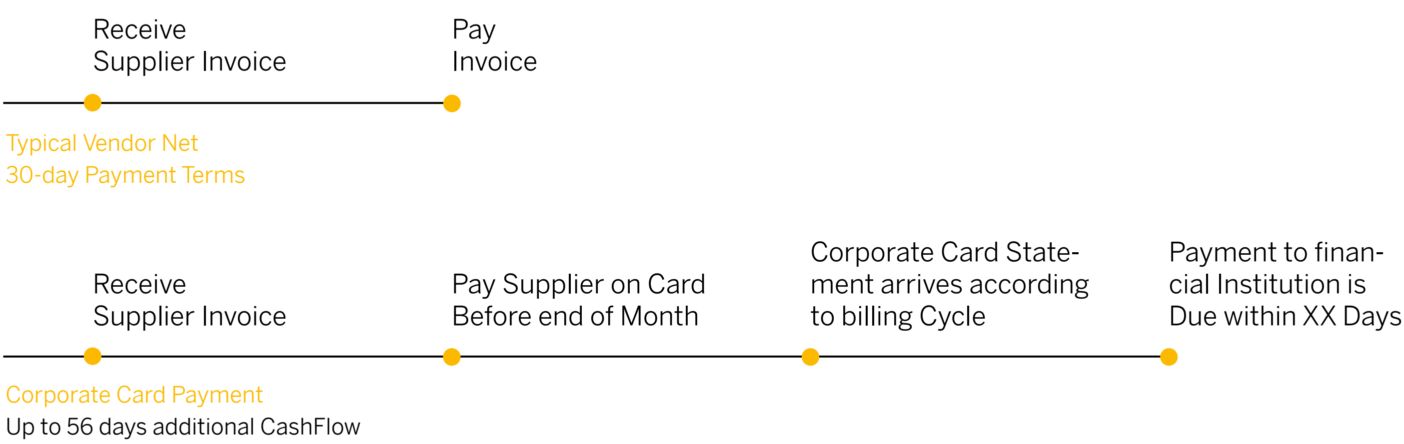
Workflow and automation open up the potential for the second step in optimising working capital management: establishing connections with virtual card providers or payment aggregators. These 'payments-as-a-service' providers give organisations access to credit facilities, streamlined processes and payment terms from the banks to pay your suppliers. Where they can have the biggest impact is on your DPO – Days Payable Outstanding.

Suppliers typically specify 30 day payment terms, but by accessing the services of a virtual payment solution, your organisation has the potential to access credit card payment terms that result in up to 56 days. And this still means paying your suppliers on time, or early if that generates any additional discounts.
These payment providers can also optimise complex B2B payments and automate reconciliation processes, both of which organisations would otherwise have to manage themselves, saving time and money, and improving overall visibility and management.

The impact of payment providers has been positive for both sides of the supply chain. For the supplier, it's resulted in the ability to offer extended payment terms, process efficiencies and provided greater security on future payments. For the buyer, it's reduced the burden of reconciliation, simplified the process and ensured that payments are meeting the supplier's terms.

From that point, there is untapped potential for automation of your financial systems from the connections that you can establish in your partner ecosystem.

Cash Flow Benefit



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What are Virtual Card Payments?

A virtual card is provided by financial institutions to businesses as a secure payment mechanism for online business-to-business purchasing. Rather than a physical card, it's an electronic solution that enables digital transactions to take place, linked back to the organisation's identity and providing credit card financial conditions. It's when a virtual card is linked with a digital payment solution provider (such as InvaPay or Octet) that additional benefits can be unlocked. Organisations can take advantage of extended credit, while still settling invoices to meet payment terms. Greater visibility is also gained through the course of the transaction, and there is an opportunity to automate more components of the payment process, increasing overall efficiencies.

ABOUT SAP CONCUR

SAP® Concur® solutions take companies of all sizes and stages beyond automation to a completely connected spend management solution encompassing travel, expense, invoice, compliance, and risk. For more than 20 years, these leading, innovative solutions have kept customers a step ahead by delivering time-saving tools, connected spending data, and a dynamic ecosystem of diverse partners and apps. User-friendly and business-ready, SAP Concur solutions unlock powerful insights that help businesses reduce complexity and see spending clearly, so they can manage it proactively. For more information, visit concur.com.au.

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