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Strategies that power the potential of A/P optimization

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Overview

Companies are often focused on growth opportunities and have little time or motivation to optimize back-office accounts payable (A/P) processes. What is often overlooked is that accounts payable is a fundamental function that can provide the stability and working capital to fuel growth. If not managed properly, A/P can inhibit the progression and mobility of an organization by holding critical people and funds hostage to inefficient processes. Ever-changing demands push and pull in opposing directions as an organization tries to balance the cultural aspects of the business with the optimization opportunities of payment processing.

In recent studies, financial leaders outlined their top business/departamental priorities. Among these were cost containment, operational efficiencies and automation (Aberdeen Group, September 2013). In that same study, leaders favored the use of technology to improve processes to better manage cash flow and to help mitigate fraud. They ultimately want to see manual, paper-based processes eliminated with the goal of saving money, improving cash flow and optimizing their working capital position.

There are a few fundamental questions that will help you determine a starting point in moving towards increased efficiency.

1. Are your suppliers centrally tracked and regularly maintained in a payment system, including contact information, terms, discounts and payment preferences?
2. Do you use all of the information in your vendor master file to optimize your payment process and to create working capital savings?
3. Have you migrated suppliers to the types of payments that are cost effective for your company?
4. Have you set goals in A/P to maintain a payment strategy that will save money over time and allow you to scale without issue?

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Considerations

- Operational efficiency and cost containment are CFOs highest priorities
- CFOs favor technology to better control cash flow and fraud
- Companies are not able to process paper-based reviews and approvals in time to capture early pay discounts
- Employee base is diverse, spanning multiple generations and types of experience



A true payment strategy works through the culture of an organization to address the entire organization's strategy in managing suppliers and payments.

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Operational efficiency and scalability is achieved when an entire organization rallies behind a unified supplier management and payment strategy.

A key consideration in recent years is that employees are staying in the workforce longer. Many companies have three, four and even five different generations of people across their employee base and the idea of "process efficiency" can vary widely across such diverse groups. Some of those employees feel comfortable and "efficient" with paper and traditional payment management, while others seek automation and paperless processes wherever possible. The challenge comes in getting all of these employees comfortable and supportive of change and process improvements.

How can you align your entire organization with best practices and optimize your critical payment processes?

Power the potential of your payment strategy

A true payment strategy works through the culture of an organization to address the entire organization's strategy in managing suppliers and payments. If you create and apply a payment strategy properly, you will ensure your critical resources (dollars and people) are being applied to the most strategic and value-added activities to support company growth. Accounts payable staff will spend less time managing inefficient and manual, paper-based processes and you will be able to scale your operations as needed and apply your resources to the growing demands of your company. This can also boost employee morale by taking

away mundane tasks and offering the opportunity to learn new skills and to provide variety in daily assignments.

The key steps in creating a payment strategy are:

1. Supplier Segmentation
2. Defining Your Payment Strategy
3. Supplier Enrollment & Management
4. Ongoing Payment Strategy Management

The natural tendency is to tackle each of these components independently. Unfortunately, this approach will not produce optimal results. It is daunting to attempt to tackle all of this on your own. Support from key internal partners is crucial. You will also need to seek assistance from a financial institution that has the experience and ability to tailor a payment strategy to your business and culture. They should help you find the best approach to optimize payments over time and outline best practices for your organization. A key to success is establishing metrics that will create focus and allow you to track improvements internally as well as with your financial partners. These metrics vary by organization but can include things like improved Days Payables Outstanding (DPO), time and cost savings, discount capture rate, savings from process improvements, bank fee savings or commercial card rebate improvement. No matter which elements you choose to track, make sure you measure improvements that align best with your company culture and goals.

Let's review each component of a payment strategy and outline the best practices for implementation.

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Supplier Segmentation

While you should be able to use your buying power to dictate payment options, the fact is that suppliers can and often do dictate how they want to be paid. Keep in mind that these vendors are trying to manage their receivables process just like you are trying to manage your payables process. They have costs and goals and are typically focused on how they can receive payment in a timely manner for the least amount of overhead. A key to your success is the ability to track and segment vendors so you can work with them to find the most efficient payment approach. You need to motivate and incent suppliers to optimize payment processes with you and this is where a supplier segmentation strategy comes into play.

The following are the best practices in tracking and segmenting your supplier base:

1. Track all suppliers in a centralized enterprise resource planning (ERP) or financial system. Even if you have decentralized business units, centralize all of the supplier data and ensure the following is tracked by supplier:
 - Supplier contact information (address, phone, email, primary contacts, etc.)
 - Location detail
 - Parent company designation
 - Preferred payment method
 - Payment terms and discounts
2. Organize your top suppliers by spend and by total number of transactions. Make sure you identify suppliers that should “roll-up” to a parent company and aggregate the spend under a parent company record (e.g. corporate vs. location).
3. Identify your top 10-20 percent of suppliers by spend, transaction or both. These are vendors that are critical to maintaining your business functions. These relationships should be closely managed and you may want to dedicate a purchasing agent or sourcing manager to these accounts. You should negotiate payment terms and discounts and partner to automate the processing of invoicing and payment.
4. For the remaining list of vendors, group them by payment type (check, ACH, card and wire). Create a 12 month report that includes vendor name, address, payment type, payment term, total number of payments and total dollars paid.
5. Work with a financial institution that has the ability to analyze and segment the file to identify payment best practices by term, payment type and vendor/vendor type.

Defining Your Payment Strategy

Once you have your suppliers organized and segmented, you are now ready to formalize your payment strategy. Realize that you won’t ever be able to move all of your suppliers to a single payment term or type. You need to offer options, and the key is setting those options to provide incentive for the supplier to adopt best practices with you. Create a payment menu and use payment terms that act as

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Payment Strategy (n):
A plan to manage payment processes and culture that focuses on payment savings, process efficiency, payment automation and supplier management.

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incentive. Pay vendors as quickly as possible when they agree to the invoicing and payment options that work best for you. Pay those suppliers that offer early payment discounts first. Next, pay suppliers that are willing to accept card and then follow that with a slightly longer term for ACH adopters. Check payments should have the longest term, sending the message that this is your least preferred payment option. A sample payment menu is listed below.

Payment option	Invoice option	Payment term
<input type="checkbox"/> ACH with Early Payment Discount	Electronic Only	2% Net 10
<input type="checkbox"/> Commercial Card Payment (Single-use account, Card on File, Purchasing card, etc.)	Electronic Only	Net 15
<input type="checkbox"/> ACH	Electronic Only	Net 20
<input type="checkbox"/> Check	Electronic Only	Net 45

... harness the creativity of your organization to brand your payment strategy to sell the concept internally and with your vendors.

Next, harness the creativity of your organization to brand your payment strategy to sell the concept internally and with your vendors. Use this name as a way to outline the benefits of your program and actively promote the time and cost benefits this strategy offers your company. Work closely with your company executives, marketing, procurement and sourcing, finance, and technology and include them in the project and naming of the program. Make sure they understand the benefits of the program and create champions in each of these areas.

Once you have a strategy and champions in the organization, you need to roll out your program. Here are a few suggestions to help you get started:

- Work with procurement/sourcing to update contracts/agreements to include the payment menu and verbiage about your payment strategy.
- Create a simple document, card or desk placemat that can be distributed to all of the appropriate employees. This should include key information about your payment program and outline roles and responsibilities by group.
- Provide sample call scripts to A/P and procurement/sourcing as examples of how to promote the program.
- If possible, offer incentives to employees when they are able to “convert” a certain number of suppliers to ACH or card. (e.g. For every 10 suppliers converted provide a gift card to that employee).

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Supplier Enrollment & Management

One of the most daunting tasks is the perceived amount of effort required to contact and convert suppliers. Don't let this overwhelm or deter you from moving forward. A number of options and services are available, free of charge, and will help offload the majority of this work from your staff. You should also realize that converting vendors is not a one-time project, but rather something that should take place over time or could be phased in stages. Some financial services providers offer ongoing supplier enrollment campaigns and provide multiple ways to contact suppliers (e.g. email, phone, web portal). Here is a list of services you should ask for from a financial partner.

- Will they work with you to analyze and segment your vendor file?
- Can they outline the suppliers that are best for ACH, card and check?
- Can they reach out to suppliers on your behalf and will they manage a supplier campaign for you?
- Do they offer an initial single campaign approach or allow for multiple, ongoing campaigns?
- Do they have supplier portal that allows vendors the ability to see your payment menu and choose the best option for them?
- Does the supplier portal allow the vendor the ability to securely share sensitive information for card and ACH enrollment?
- Can they provide you reports and status of suppliers so you can properly update your ERP/financial system?

- What is the cost for them to manage a supplier campaign?

If your financial institution cannot offer all of these options then you may need to find a partner that can accommodate your requirements.

Once you find the right partner, begin with the supplier analysis and segmentation. Take the suppliers that currently pay by check and work with your financial partner to create a plan for a supplier campaign. Provide them with your payment strategy and educate them on how you want the emails and phone calls to be scripted. Outline the type of reporting or information you will require once they identify suppliers ready to convert to a new payment and process. Finalize your plan for the initial supplier campaign as well as your requirements for ongoing supplier outreach.

As the campaign progresses, you should get regular reports/files from your financial provider and then update your ERP/financial system. As suppliers are converted, you will want to make sure your vendor master file is updated and that you pay the supplier accordingly. Also, as a note, when you add new suppliers have them select the payment and term that works best for them. When your procurement/sourcing or A/P staff add that new supplier record, have them update the payment method and the term that was selected. If you add a large number of new suppliers at one time, then leverage the resources of your financial partner to create an outreach campaign for those suppliers.

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Ongoing Payment Strategy Management

Now that your payment strategy is in place, it may be tempting to just sit back and enjoy the compliments you receive as your organization's new savings and efficiency hero. While you enjoy the praise, you need to make sure it sticks and that the efficiencies can be maintained over time.

Here are the best practices to maintain your strategy and savings over time:

- Define and track key metrics for your payment strategy and include those in your regular financial reviews throughout your organization.
- Regularly highlight the benefits and savings that have been or will be achieved. One idea could be using a wall in a high-traffic area to promote and outline the people involved and savings achieved as the payment strategy progresses. Celebrate success!
- Make sure key groups are tasked with goals and track their performance based upon the new rules of vendor and payment engagement.
- Ensure key employees in accounts payable and procurement are tasked with performance goals to maintain and manage the payment strategy. These employees will need to review in regular intervals their progress in managing supplier relationships and payments according to your strategy.
- Hold regular semi-annual or annual reviews and identify changes to your vendor management and payment

strategy. This should include reviews of your vendor file with your financial provider.

- As supplier needs change, make sure you help them migrate to the best payment option. For example, a supplier may have been converted from check to card and they are now ready to move to ACH. Work with your financial partner to incorporate this into your supplier campaign approach.

Putting it All Together

You now have all the pieces necessary to create your own vendor management and payment strategy. It will require strong leadership to get the ball rolling but it is worth the investment. You will ensure accounts payable is viewed as a fundamental function managing working capital to fuel growth. Your critical resources (dollars and people) will be applied to the most strategic and value-added activities to support that growth. Less time will be spent managing inefficient and manual, paper-based processes and you will be able to scale your operations as needed. The many generations that make up your employee base will be better aligned to process improvement and optimization. Ultimately, your payment process will accentuate your company's culture and success by containing costs, creating operational efficiencies and automating processes. Don't miss the chance to work with your financial partner to maintain a strategy that creates savings over time.



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Don't let fraudsters play Whack-a-Mole with your payments

By Mary Burchette

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Have you ever played the game Whack-a-Mole? If yes, then you know that as soon as you force the mole back into its hole it pops up somewhere else. Perpetrators of financial fraud are like the moles in the game. As soon as banks and their customers catch on to these fraudulent schemes, the fraudsters shift gears and try another tactic. Sometimes their most effective schemes are the least technologically sophisticated.

One type of fraudulent scheme is “imposter fraud,” and it’s on the rise. With imposter fraud, fraudsters may represent themselves as a company executive, a vendor or even the IRS. In some cases they will urgently call a corporate user authorized to initiate payments and request the immediate transfer of funds. Or they may represent themselves as a vendor and request a change to payment instructions. They speak with authority and confidence, often intimidating the person they’re calling to initiate the transfer or change. They frequently stress the confidentiality of the transaction and urge the user not to tell anyone.

Fraudsters may also intercept email communications between banks and their customers, then customize messages based on information gathered from those hacked emails to request unauthorized funds transfers. If the fraudster is successful, the unknowing corporate user will initiate a payment to the fraudster’s account.

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With successful imposter fraud, payments are initiated by an authorized user of the victimized organization and, in many cases, are approved by an additional user. Because the payments appear valid there can be delays in discovering the fraud, which may reduce or even eliminate the chance of recovering the funds.

Here are some preventative measures to help reduce the risk of falling victim to imposter fraud:

- Trust, but verify. Organizations should consider enhancing their operational money movement controls to verify the source of any email or phone-based request. They shouldn't verify by replying to the email or using the phone number provided by the caller, but instead use the email address or phone number they have on record for the requestor.
- Create awareness. Continually educate staff on trending scams and techniques being used by fraudsters. Ensure staff understands and follows the operational procedures for sending and approving wire transfers and ACH credits. Conduct surprise audits to ensure appropriate procedures are being followed.
- Limit access. Restrict the number of employees authorized to initiate payments or make changes to vendor payment instructions.
- Require dual approval. Have another user approve wire transfers, particularly under the following conditions:
 - A dollar amount over a specific threshold
 - Trading partners that have not been previously added to a list of approved trading partners to receive wire payments
 - New trading partners
 - New bank and/or account numbers for current trading partners
 - Wire transfers to countries outside of normal trading patterns

If your organization does fall victim to fraud, contact your IT security staff and your bank immediately. Additionally, you should notify your local FBI or U.S. Secret Service field office at <https://www.fbi.gov/contact-us/field/field-offices> or <http://www.secretservice.gov/contact/field-offices/>, or file a complaint online at <http://www.ic3.gov/complaint/default.aspx>.



Ameren Corporation streamlines A/R processing with VantagePoint™

With more than 3 million customers, Ameren Corporation, a provider of electric and natural gas utility services in Illinois and Missouri, processes hundreds of ACH receipts each day. Moreover, a single receipt can cover hundreds of accounts, says Larry Davis, the company's banking supervisor.

Quality customer service is a key goal at St. Louis-based Ameren, Davis says. For accounts receivable (A/R), this means posting payments to customers' accounts as quickly and accurately as possible.

The company also wants to help many of its smaller industrial and commercial customers pay electronically. Some have been unable to send remittance information in the EDI 820 format required to auto-post to Ameren's A/R system and, as a result, have continued to pay with paper checks, Davis says.

Furthermore, Ameren wants visibility to exceptions, as well as the ability to correct exceptions before they're loaded into their A/R system.

Until recently, several obstacles made achieving these goals difficult: Payments can arrive lacking the data necessary to post the correct amount to the correct account; other payments may contain all the necessary information but are formatted in a way that prevents A/R systems from processing the information using an automated system. Until recently, this caused payments to be moved into an exception queue that typically required manual intervention to resolve.

In the past, Ameren employees often needed to key in the account number before the A/R system could process the transaction. This slowed the process and threatened to erode customer satisfaction, Davis says.

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More efficient, accurate payment posting

VantagePoint, a next-generation receivables solution from U.S. Bank, addresses Ameren's challenges. For Ameren, a key benefit of VantagePoint is the ability to automatically reassociate remittance data that's received separately from the payment.

The VantagePoint Remittance Reassociation service joins remittance information received by email or fax to posted payments. Captured remittance data, such as payer name, date and payment amount, is compared to the electronic payments. Once matched, the remittance detail is attached to the payment for reporting and inclusion in posting files. This streamlines cash application by reducing the manual work required to reconcile payments when remittance information arrives separately from the payment or is incorrectly formatted.

In addition, Ameren implemented mapping rules that allow VantagePoint to read account numbers that include non-standard characters, such as dashes or asterisks. "This saves us from keying the account numbers," Davis says.

The company also implemented parsing logic that enables VantagePoint to more accurately identify remittance dollar amounts and reduce exceptions.

With these VantagePoint capabilities, Ameren is now meeting its goal of posting payments more quickly and accurately.

Easier migration to electronic payments

The company is also in a better position to successfully migrate many of its check-paying customers to electronic payments, Davis says.

Indeed, Ameren's use of VantagePoint benefits their customers. Faster, more accurate posting of payments reduces the need for customers to inquire about the status of payments and research exceptions. Customers are now able to pay Ameren electronically even if they can't provide remittance detail in the EDI 820 format, lowering their costs in the process. VantagePoint's ability to reassociate remittance information sent by email or fax with separately sent electronic payments makes this possible.

Greater visibility to exceptions and cash flows

Ameren also now has immediate visibility to exceptions. "With VantagePoint, we can see right away why payments are moved to an exception queue,"

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Davis explains.

VantagePoint brings receivables payments together into a consistent presentation and format. “Treasury employees gain real-time access to transaction data and can easily view the details of each transaction to research and manage exceptions,” says Sam Robb, senior vice president and group manager with U.S. Bank.

“You have, at a glance, visibility across all payments,” Robb says, noting that such a holistic view of receivables and cash flows enhances a treasurer’s ability to make informed decisions.

Built internally at U.S. Bank

VantagePoint operates from the U.S. Bank proprietary online treasury management platform, SinglePoint®. Building VantagePoint internally was a strategic decision. “We wanted to implement our strategic vision, versus being tied to a vendor’s road map and timeline,” Robb says. “This decision allowed us to quickly and effectively deliver solutions to solve real-world challenges that our clients face today.”

U.S. Bank invested heavily in VantagePoint and continues to dedicate substantial resources to bring further enhancements to the solution. “We have a robust road map and dedicated development teams to deliver new features and enhancements,” Robb adds.

VantagePoint enables treasury managers to streamline transaction processing, reduce exceptions and help more of their customers pay electronically. It also boosts visibility to cash flow, which helps improve decision-making. “It fills a niche that’s been missing from receivables processing,” Ameren’s Davis says.

For more information on how VantagePoint can help your organization address A/R challenges, contact your U.S. Bank Treasury Management Consultant.

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