Accounts Payable Trends & Best Practices

May 19, 2011

Agenda
- Typical AP Challenges
- AP Automation
- Invoice Management
- B2B Payments
- Financial Supply Chain
- Q&A
Top Priorities – CFO View

- Mitigate Risk: 43%
- Forecast Financial Performance: 53%
- Optimize Working Capital: 70%
- Reduce Costs: 73%

Source: Aberdeen Group, February 2009

Value of Operational Efficiency

The Gartner Group estimates that a 5% reduction in operating costs has the same impact as a 30% increase in sales.
Pain Points in A/P Operations

- Manual data entry
- Routing invoices for approval
- Resolving errors and exceptions
- Overall payment costs (staff, processing, etc.)
- Lost or missing invoices
- Lack of visibility across invoice-to-pay process
- Inability to accurately forecast liabilities
- Potential risk of payment fraud

Source: U.S. Bank – IAPP AP Automation Study

Paper’s Impact on AP

An average organization . . .
- Makes 19 copies of each document
- Spends $20 in labor to file each document
- Spends $120 in labor searching for each misfiled document
- Loses 1 out of every 20 documents
- Spends 25 hours recreating each lost document

Source: PricewaterhouseCoopers
Typical Accounts Payable Challenges

- Prepare for future growth without adding additional FTE
- Existing process involves manual handling of paper invoices
- Retrieval of supplier invoices & supporting documentation is manual
- Payments are managed primarily via check
- Desire to strengthen internal controls while focusing FTE on higher value activities

Top Financial Automation Goals

- Implement Electronic Invoices: 40%
- Approval Workflow for Invoices: 21%
- Automate Payment Processing: 16%
- Implement Invoice Imaging: 11%
- ERP Application Upgrade: 10%
- Outsource Portions of AP Process: 3%

Source: PayStream Advisors' 'Invoice Automation Automating AP Processes through Imaging and Workflow' Q3 2010
AP Technologies

Which of the following technologies does your AP organization currently use?

<table>
<thead>
<tr>
<th>Technology</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>EDI</td>
<td>44%</td>
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<tr>
<td>ACH</td>
<td>76.6%</td>
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<tr>
<td>Wire transfer</td>
<td>76.9%</td>
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<tr>
<td>Electronic invoicing</td>
<td>20.6%</td>
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<tr>
<td>Document imaging</td>
<td>63.6%</td>
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<tr>
<td>Automated data capture (OCR)</td>
<td>19.9%</td>
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<tr>
<td>Automated workflow</td>
<td>35.7%</td>
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<tr>
<td>P-card</td>
<td>60%</td>
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</tbody>
</table>

Source: Global Trends in Automated Data capture in AP, Nov. 2010

Different Stages of A/P Automation

Organizations are recognizing A/P automation as an area offering tremendous potential for achieving tactical and strategic objectives.

Source: PayStream Advisors, Q2 2009
Benefits of Automation

- Reduce processing costs
- Increase efficiency and productivity
- Compress invoice receipt-to-pay cycle
- Reduce errors and accelerate discrepancy resolution
- Minimize fraud and duplicate invoices
- Increase early payment discount capture
- Strengthen vendor relations
- Improve cash flow forecasting abilities
- Enhance visibility and control

Challenges to AP Automation

- Lack of budget: 45%
- Current processes work: 41%
- No executive sponsorship: 15%
- Lack of resources to manage automation: 13%
- Do not expect ROI from automation: 13%
- Lack of understanding of current solutions: 12%

Source: PayStream Advisors, Q1 2010
Handling of Invoices

Source: PayStream Advisors: eInvoicing Adoption Benchmark Report Q2 2011

Invoice Processing Times

How many days on average does it take your organization to pay an invoice?

Source: Global Trends in Automated Data capture in AP, Nov. 2010
Cost of an Invoice

Source: Global Trends in Automated Data capture in AP, Nov. 2010

Growth in the Use of eInvoicing

Source: PayStream Advisors, Q2 2009
**Benefits of eInvoicing**

- Fewer Supplier Inquiries: 20%
- Improved Vendor Satisfaction: 27%
- Fewer Duplicates: 31%
- Increased Ability to Capture Discounts: 37%
- Decreased Time-to-Pay: 39%
- Manual Data Entry & Inefficient Processing: 46%
- Reduction in Exceptions: 46%
- More Visibility Across the Transaction Lifecycle: 47%
- Decreased Cost of Lost/Missing Invoices: 63%

Source: PayStream Advisors: eInvoicing Adoption Benchmark Report Q2 2011

**Challenges in Invoice Management**

- Majority of Invoices Received are Paper: 60%
- Manual Data Entry & Inefficient Processing: 51%
- Manual Routing of Invoices: 50%
- Lost/Missing Invoices: 21%
- High # of Discrepancies & Exceptions: 17%
- Decentralized Invoice Receipt: 17%

Source: PayStream Advisors 'Invoice Automation Automating AP Processes through Imaging and Workflow' Q3 2010
In 2009 8.4 billion* annual B2B payments were made:

- **Electronic Payments**: 2.3 billion
- **Check Payments**: 6.1 billion
- **Wire**: 7% of payments
- **Card**: 18% of payments
- **ACH**: 75% of payments

*Source: PayStream Advisors “Exploiting the Emerging Market Opportunity for Supplier Payment Automation” 3Q10

ACH CTX payments increased to 67 million transactions in 2010, an 11% increase over 2009.

According to the Tower Group, AP spend on purchasing cards is expected to increase from $15B in 2007 to $57B in 2012.
Majority of B2B Payments Are Check

More than 75% of buyers believe that the majority of their suppliers currently receiving paper checks will be able to receive electronic payments within 3 years.

Source: U.S. Bank – IAPP AP Automation Study

B2B Payment Landscape

- Adoption of B2B Payments in the U.S. is slower than other countries
  - According to Paystream Advisors
    - 47% of organizations report less than 5% of their suppliers are enrolled in their ACH ePayment Program.
    - 40% of companies make less than 5% of their payments using ACH
  - Aberdeen Group cites that Canada and most European countries have embraced electronic payments
    - Germany, Netherlands & Switzerland have attained over 95% penetration rates

Source: PayStream Advisors “Exploiting the Emerging Market Opportunity for Supplier Payment Automation” 3Q10
Barriers to Adoption of Electronic Payments

Source: U.S. Bank – IAPP AP Automation Study

B2B Payment Landscape

Percent of Organizations Subject to Attempted or Actual Payments Fraud
(Percent of Respondents)

Source of fraud resulting in loss

- Outside individual (check forged, stolen card): 87%
- Organized crime ring: 15%
- Internal Party (Malicious insider): 11%
- Third party or Outsource: 8%
- Criminal invasion (hacked system, malware): 4%
- Other: 4%
- Stolen laptop: 2%

90% of customers in 2009 experienced check fraud

Source: 2010 AFP Payment Fraud and Control Survey
### B2B Payment Landscape

- Opportunity growing…
  - Economic downturn has resulted in an increased strategic focus for Treasury to optimize working capital management
  - Increase in international trade is prompting interest in electronic payment methods
  - Improved technology makes electronic payment solutions more accessible

### Financial Supply Chain Dynamics

- The Financial Supply Chain is in the spotlight due to the significant impact on the bottom line
  - Working Capital Management/Liquidity/Cash Flow
  - Key cost contributor to indirect spend
  - Heightened concerns about risk management

#### Key Factors Driving Electronic Payments/Processes

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<tr>
<th>Percent of Companies</th>
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<td>20</td>
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<td>60</td>
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<td>80</td>
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<td>100</td>
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- Better Cash Mgmt
- Remove Paper from AP
- Reduce P2P Costs

#### Cost Savings from Automation

- The cost to process an **invoice** is 10x more for laggard vs. best-in-class companies ($35.56 vs. $3.53)
- The cost to process a **payment** is more than 10x higher for laggard vs. best-in-class companies ($16.96 vs. $1.61)

Source: Paystream Advisors, 2010

Source: Aberdeen September 2009 E-Payables Benchmark study
Interest in Discount Capture

Source: PayStream Advisors: eInvoicing Adoption Benchmark Report Q2 2011

Accounts Payable Best Practices

- Pay invoices on a predetermined schedule of the company’s choosing while maintaining good supplier relationships
- Ensure the accuracy and authenticity of invoices that the company pays
- Process accounts payable paperwork with a minimum of handling and expense
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