ACCOUNTS PAYABLE VS. ACCOUNTS PROFITABLE

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INTRODUCTION

As buzzwords like e-Payables, SaaS, and Business Process Outsourcing become more and more mainstream, it is easy to feel overwhelmed as organizations seek to determine what their true core competencies are, and how they really provide value for the customers they serve. There was a time when "outsourcing" was somewhat of a bad word, as it implied a cheaper, or less dedicated product or service offering would be the net result. On a national economic scale, there is still reason to think that, as services like help desk offerings based out of India are still bothersome to many. At the enterprise level though, business process outsourcing is something that when pursued for the sake of true competitive advantage, can make sense for many.

One area that has seen a huge change in the past several years is within the traditional Accounts Payable department. Whereas AP has historically been looked at as a pure cost center, many organizations now look to it as a means of generating revenue. This is due to the emergence of "e-payables," or the movement away from traditional paper checks. Not every AP department's move to electronic payments has been a seamless one though, and many organizations have grown frustrated with some of the problems they've encountered. This paper will outline two very specific issues that any organization should be aware of as they look to establish a world class e-payables program.

II

OUTSOURCING SHOULD IMPLY EXPERTISE

Whether you're a home owner and have called a plumber to fix a toilet, or you're a business owner who hires a technician to come into your office to install a phone system, we all "outsource." While you might own a home, that hardly makes you an expert when it comes to all the pieces and parts that actually comprise the physical structure. When we do recognize our own limitations, we make the call to a professional, someone, or some company that conveys a sense of expertise within a particular domain. Sometimes this expertise is exhibited by references or referrals. Sometimes having a fleet of service vehicles that are easily recognizable gives a sense that the company can be trusted. However you might vet a vendor, the idea is that they can do the job because it is what they do on a daily basis. People and businesses specialize, and this specialization allows us to do what we are really good at, as opposed to spending hours on YouTube trying to learn the inner workings of a toilet.

Within the e-payables space, there are companies whose primary business is the enterprise AP department and helping them maximize productivity. Companies such as Electronic Funds Source out of Nashville and Vendorin out of Omaha are two such companies, and they come with an expertise that is far more focused than that of their primary competitor: the traditional bank. That this is obvious should not be a mystery, but to be fair, when it comes to basis points, rebates, exchange rates, and processing fees, it is actually quite difficult to get one's head around all the salient points. While those concepts sound like banking terms, this does not mean your bank is best poised to deal with those concepts in a way that benefits the AP department.

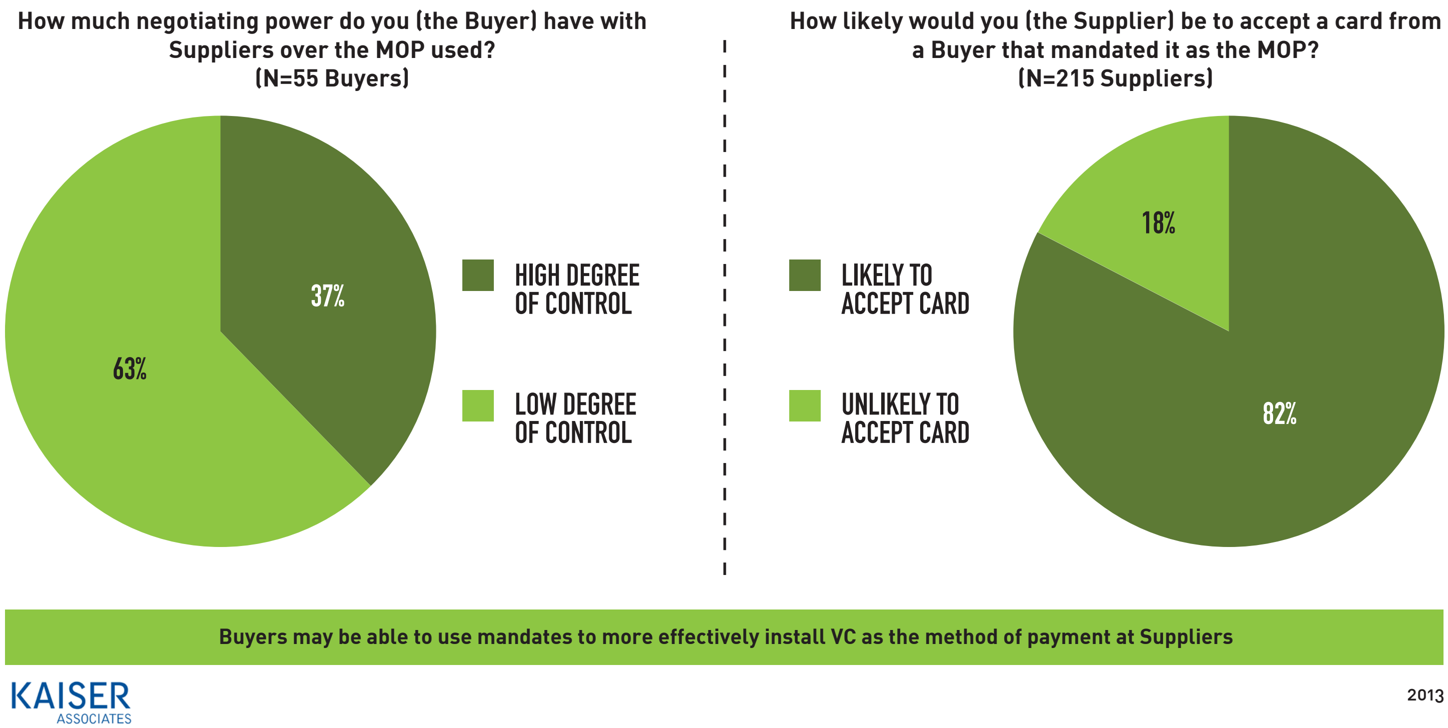
In a 2015 White Paper, Leslie Backus, Vice President of Supplier Network Development for Portland based Inworks, a company that specializes in revenue generating strategies, stated that,

"To ensure maximum ROI from your ePayables program, therefore, it's crucial not only to commit the necessary time and resources to pursuing suppliers, but also to establishing and maintaining the processes that will make your supplier onboarding as efficient and effective as possible."

This focus on vendor enrollment is something that a company that specializes in this space is equipped and willing to do. Quite frankly, it is not something that Chase, Wells Fargo, or one of the other large institutional banks care to get involved with. The reason for this unwillingness of large financial institutions might not be intuitively obvious until one pays a visit to a local bank, or at least to a local bank's website. The products and services are quite well known: mortgages, auto loans, debit cards, checking accounts, student loans, boat loans, etc. Granted, that is on the consumer side of things, but even commercial lending doesn't look much different, with lines of credits, credit card processing, and checking accounts still being where the focus lies for your local lending institution.

The focus and importance of vendor enrollment is something that often gets overlooked during the process by which many organizations select an e-payables provider. One reason for this lack of attention is that "ease" and "simplicity" are commonly used words that potential vendors like banks are prone to use. No prospect likes to hear their sales rep say, "hey this is hard, and it's going to take a lot of effort to make this program successful." Because of the desire or perceived need to oversimplify, the sales process often avoids the very difficult question that underlies every successful e-payables program: "how do we maximize the number of vendors who will accept credit card payments from us?"

One aspect of vendor enrolment that often gets overlooked is the unknown leverage that customers do in fact have with many of their suppliers. A Kaiser Associates study from 2013 indicates that only 37% of customers feel they have a high amount of leverage with their suppliers, while the same study revealed that 82% of suppliers would accept virtual card payments if



that was mandated by their customers. Taking advantage of this leverage is something that dedicated e-payables vendors understand. The good ones work with their customers, ensuring they understand strategic vendors, contract terms and conditions, along with market conditions and other options that might exist when suppliers refuse to accept card payments.

While banks are great places to go when looking to expand business operations, they are not currently set up in a way that allows them to specialize in e-payables. While it might be tempting to use a traditional bank due to familiarity, relationships, or a sense of security, none of those concepts are going to help as you try to maximize efficiencies within your AP department. The good thing is, while banks don't specialize in this, they also don't offer the best rebates, so saying "no" to your banker who's been loyal to you for years, won't be that hard. He'll understand you, because your reasons will be quite logical, and banks are nothing, if not logical.

Two of Juvo's most recent accounts exemplify this point very well, and with their being from two completely different industries, the point is hardly anecdotal. The first case involved a regional hospital that had been using a traditional bank for a few years at the point at which Juvo became involved. After an initial analysis, it was shown that only about 10% of the hospital's vendors were accepting card payments. In going with a dedicated e-payables provider, that number has grown to approximately 72%.

The second example involves a national telecommunications provider. Like the hospital, they were using a traditional bank and had been underwhelmed by the results. As they made the switch from bank to dedicated e-payables supplier, they saw their eligible card expenses increase approximately 74%. While the reasons for initially going with a traditional bank made a great deal of sense to both of these organizations, they have both benefitted from the focus that the pure e-payables supplier can deliver.

III CASH NOW VS. A POSSIBLE E-PAYABLES NIRVANA IN THE FUTURE

In the fall 2014 edition of TM Forum, U.S. Bank Senior Vice President of Treasury Management Technical Solutions Joe Schoder notes that the failure to involve one's local bank is often a big reason why many AP departments fail to achieve the "ideal electronic payables environment." The logic behind his sentiment is probably not without some degree of truth, but notice the self-serving notion of what he is implicitly stating: unless your systems are tied to our systems, you'll never reach that ideal state where your payables will be 100% electronic, or "hands off."

Ed Regina, Senior Vice President and payables head of Global Treasury Management at U.S. Bank, when speaking of "e-payables nirvana" in the same fall edition of TM Forum, mentions the idea of having rules in place that ensure that invoices are paid in ways that actually generate revenue. Again, nothing but logic behind the sentiment, but he is speaking of rules that have been set up that tie the bank's systems to the organization's systems. Is this logical? Is this something you want to do? Is this something you have the stomach to do?

One of the things that makes the dedicated e-payables company so convenient, is that while having robust systems and robust rules in place makes sense, they are not necessary in order to move forward with an e-payables solution that begins increasing cash flow today. While rules based engines are part of many of the offerings that stand alone e-payables companies offer, they are not necessary to getting the program up and running. The ERP systems that both Regina and Schoder allude to above are not in place in every organization, and even if they are, the idea of tying in those systems to one specific bank might not be in the long term interest of the organization anyway.

There are admittedly, some organizations that might currently be ready to make the leap to a completely automated payables program. These organizations have been generating rebates already using some sort of "virtual" card program, they have forecasted for head count reduction in their AP department while having also allocated substantial funds to software upgrades required to create the rules engines that will keep their payables program humming with very little human interaction. While these organizations do exist, they are uncommon. The e-payables space is less than a decade old, and so having had the forward thinking to be ready for such a leap is rare. For the vast majority of enterprise level operations, the focus has simply not been here, and in that regard, the enterprise and the bank have something truly in common.

IV

CONCLUSIONS

That the traditional American bank serves a vital role in the growth of the economy is a given. The great ideas that have no financial backing soon cease to be so great, as no one ends up hearing about them. Like many of the businesses they serve, banks exist to make money, and they make money by focusing on products that generate interest based revenue, or by assessing fees for these services. There may come a time in which banks begin to truly focus on the e-payables arena in a way that makes them competitive with those organizations whose business model is centered on this space. As of June of 2016, that time is not now. Go to your banker when it's time to expand into a new geographic region. Go see your banker when it's time to invest in a new fleet of service vehicles. When it comes to turning your AP department into a revenue generator, go see someone who specializes in that.