

## WHITE PAPER

# Best Practices for Accurate and Timely Forecasting

## Automate, Standardize, Control

### Introduction

The impact of the macro-economic slowdown continues to be felt by enterprises of all sizes and in all markets. A reluctance to spend by both business and consumers and decreased access to credit has lowered the investment opportunity for many organizations. In an increasingly competitive global market place, it is critical that organizations optimize their working capital to ensure that funds are available to ride out the current downturn.

The short timeline between the existence of a local marketplace served by local businesses and the development of a truly global economy has created dissonance across many organizations. Expansion has led to fragmentation of process and control. The wide variety of demands on and business drivers of these decentralized organizations creates internal conflict for both resource and funding. This often results in a “win/lose” scenario that wastes time and money, increases risk and is counter-productive to the best interests of the enterprise.

In the recent past, only the largest multi-nationals were able to address these issues and they typically did it through huge investment and a “brute force” approach. This approach has often included corporate edicts issued to standardize global operations, the migration of disparate systems to a single technology base, a creation of outsourced development “campuses” and consolidation of some functional processes to corporate shared service centers. Other organizations, with the same needs but without the resources to respond, have been unable to match these gains in efficiency and have lost competitive edge or, worse, have been forced to discontinue operations.

“Cash is King” has returned as the key mantra for most organizations. The good news is that the continued economic weakness and associated limitations on credit have driven the development of new solutions that provide the visibility and control necessary to optimize working capital. Equally important, many of these solutions are available at a remarkably accessible price point. We will discuss the process and operational changes required to take advantage of these new solutions.




Only **14%** of U.S. and European financial executives identified their cash flow forecasts as accurate.<sup>1</sup>

## Automate, Standardize, Control

“To err is human” is an all-too-accurate aphorism. In a world that expects perfection from both product and process, instantaneous accessibility to information and unlimited choice, it is no longer a viable choice for business processes to remain dependent on manual operations. Six Sigma performance is expected; the Three Sigma results delivered by manual processes can be the limiting differentiator between the success and failure of an organization. What too many organizations have learned, however, is that the potential benefits of automation are never realized because critical data generated by the Accounts Payable (AP) and Accounts Receivable (AR) transactional process flows is not available when and where cash management decisions are made. The increasing complexity of banking relationships and the need to consolidate balance and transactional data affecting available working capital requires both global accessibility and real-time visibility. Centralizing control of corporate liquidity requires numerous actions across the organization — but these can be grouped into three critical, “best practice” initiatives:

- Automate invoice, payment and cash management processes to ensure completeness, accuracy and timeliness
- Utilize industry standards for connectivity and messaging to ensure visibility to and management of all activities within the enterprise banks/accounts
- Control liquidity by transforming data into actionable intelligence



More than **70%** of B2B invoices and almost 70% of B2B payments remain paper-based.

## Automate Invoice, Payment and Cash Management Processes

In a typical enterprise, there are a myriad of internal organizations responsible for processes related to the inflow and outflow of transactions that affect enterprise liquidity. This often leads to a chimned view of these functional processes rather than as enablers or inhibitors of a highly efficient corporate cash flow. All of these processes contribute to an organization’s available cash and should be of concern to Treasury because the corporate treasurer function must take a holistic view if inefficiencies are to be recognized and corrected. The scale of these potential contributions to corporate cash can be seen in a recent report<sup>2</sup> from REL, a division of The Hackett Group, that indicated more than \$182B could be freed from the collective supply chain by better management of accounts payable processes. While significant attention has been paid to improving processes such as sourcing and logistics, many back-office functions have been categorized as “not worth the effort to change, necessary overhead.” An analysis of the potential impact on working capital optimization of automating the processes, however, conveys a very different message.

A recent article in *GTNews* focused on the automation and standardization of internal processes as a critical aspect of optimizing treasury operations. The following were identified as key initiatives to improve liquidity and reduce risk:

- **Straight-Through Processing (STP)** - reduces errors through automation of transaction handling
- **One point of entry** - lowers complexity by interacting with many parties via one channel
- **Standardization** - avoids the effects of being “locked-in” by use of non-proprietary solutions
- **Real time** - enables rapid response to operational requirements via real-time transaction execution

While many organizations have automated some of their internal processes such as payroll, the automation of B2B transactions is still lagging in the United States. The drumbeat for the automation of invoices and payments has been loud for many years but it continues to fall on mostly deaf ears. Aberdeen Group<sup>3</sup> estimates that more than 70 percent of B2B invoices and almost 70 percent of B2B payments remain paper-based in the U.S.. The effects of this reality are profound:

- Manual processes for each invoice cost as much as \$34 and take 35 days versus \$2.18 and 2.8 days when these processes are automated. For payments, these figures are \$17 and 27 days when manual versus \$1.61 and less than 2 days when automated.
- Delays in processing cost organizations \$2-5MM per \$1B of spend as, typically, only 64 percent of contractual early payment discounts can be taken.
- Automation’s contribution to the bottom line was also verified. Best-in-class businesses in Aberdeen Group survey were 81 percent more likely to have automated the operational transactions that affect cash flow.

It is easy to see the effect of 30 to 80 percent savings on the cost of each of your AP transactions. As an example, averaging the results of a broad range of industry analysts reporting on payment automation finds an average of more than \$3 in savings per payment. For an organization making 15,000 payments each month, that generates more than half a million dollars in savings.

While the most efficient solution for automating these processes may vary for each organization, there are a number of key requirements that are mandatory for success. These include:

- Minimal Business Process Reengineering (BPR)**  
 For the majority of process automation activity, ROI depends primarily on the level of effort required to integrate new technology with existing infrastructure and process. Solutions that provide maximum functionality and minimal integration effort will help ensure success.
- Bank-Agnostic Solutions**  
 The complexity of banking relationships continues to increase as organizations expand their supplier and customer communities and seek to minimize counter-party risk. Successful automation solutions must provide the flexibility necessary to ensure that they meet security and banking (account management) needs of the organization and their trading community.
- Ease of Participation and Use**  
 The value of any solution is dependent on the participation of the target community for which it is intended. Many organizations have discovered that the return on their investment in automation has been severely limited by the need to continue to maintain manual systems because their external user communities have found utilization the automated system too difficult. On-boarding and use must both be perceived as simple and advantageous by the target user community.

### Utilize Industry Standards for Connectivity

The relationship between banks and their corporate clients is shifting as the macro-economic environment drives changes to corporate requirements and the ability of banks to provide services that meet those requirements. In addition, even long-standing banking relationships are threatened by tightening credit, volatility within the banking industry and regulatory change.

In addition to these largely external forces, an organization's internal changes also impact their banking requirements. The trend toward globalization of the supply chain and participation in global markets means that international banking relationships are expanding. M&A activity typically brings new banking relationships to the merged organization with additional complexity as potential duplication, service and cost variance, and opportunity are sifted and appropriate actions taken. For most corporations, these factors have resulted in an expanded "network" of banks. As shown in Figure 1, more than half of large corporations responding to a recent Aite Group survey utilize more than 20 banks.

### The Majority of U.S.-Based Large Corporates have More Than 20 banking Relationships

**Q.** With how many banks around the globe does your organization do business?

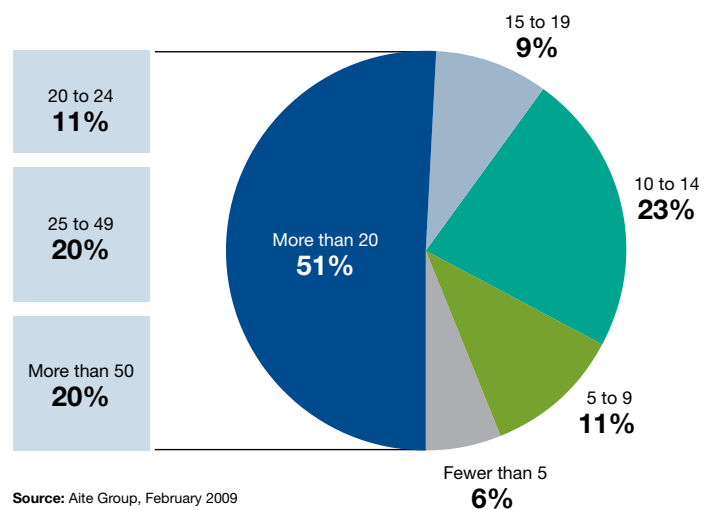


Fig. 1

With funds being deposited into and disbursed from disparate bank accounts, near real-time access to cash balances (wherever they are held) is a key contributor to efficient liquidity management. It allows for the identification of sources of excess cash, avoidance of unnecessary fees, and management of counterparty and currency risk.

A key factor in successfully managing these multiple banks and accounts is the implementation of an enterprise-wide standard for receiving information from your global banking network. Maintaining connectivity to multiple bank environments is resource-intensive. It is also subject to error as data from individual sources goes through the inevitable manual consolidation process.

The opportunity for standardization of global bank connectivity has been enhanced by the expansion of the SWIFT network to include corporate membership in addition to the 8,700 banks in 209 countries. The use of SWIFT for corporate-to-bank communication is quickly gaining momentum as shown by the rapid membership growth of SWIFT for Corporates (42 new corporates joined SWIFT in 2010Q2 alone) and message traffic volume acceleration (FIN messages grew 17 percent from 2010Q1 to 2010Q2 and FILEACT messages grew by 26 percent from Q1 to Q2).

Companies that adopt non-proprietary solutions and standard bank-connectivity formats such as SWIFT and BAI lessen the training and support burden on finance and IT staff, tighten data security and protect themselves from the costs and complexities incurred when adding or changing bank partners.

### Control Liquidity by Transforming Data into Actionable Intelligence

If the data from the operational processes already discussed (AP, AR) remains scattered on “islands of information,” the consolidated view of corporate liquidity needed to ensure working capital optimization will remain unattainable. As shown in Figure 2, 87 percent of those responding to a *Treasury & Risk* survey<sup>4</sup> indicated that technology investment in solutions that improve cash management, cash flow forecasting and the transactional processes that affect corporate cash delivered the most strategic value.

### Top Five Areas Where a Decision to Buy Technology and/or to Outsource Allowed Treasury to Make a Significant Contribution (%)

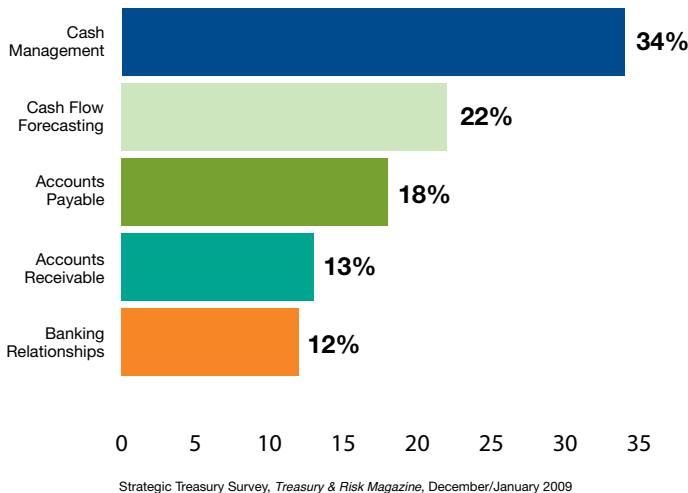


Fig. 2

The key to successfully overcoming these challenges is implementation of a solution that provides consolidated visibility to accurate and timely balance and transaction information, including the ability to “drill down” to the transaction detail contributing to the totals. It must also provide the capability to easily create whatever views of the information are most cogent to the organizational structure and operating model. Contrast this “best practice” scenario with a 2009 AFP Benchmarking Survey that showed more than 60 percent of respondents were still using manual processes to manage cash flows, financial risk, and cash positions and more than 80 percent were still manually entering data for cashflow forecasting. The processes that affect corporate cash flow, AP, AR, and banking, are shown in Figure 3.

### Treasury Management Visibility Requirements

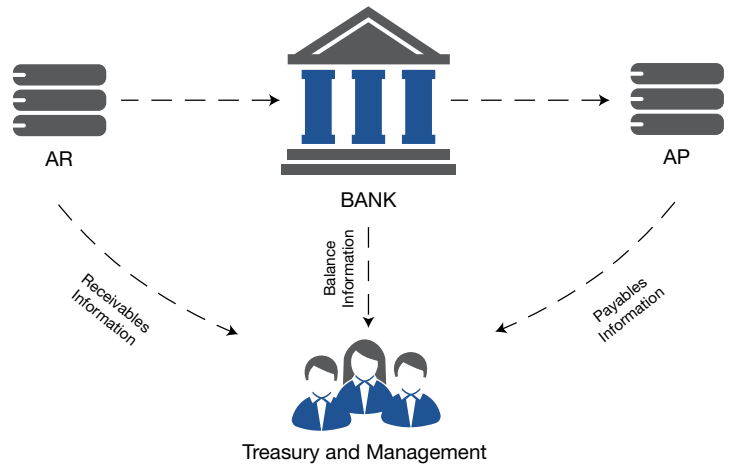


Fig. 3

Providing timely, consolidated visibility to this balance and transaction information will allow an organization to:

- Monitor bank performance
- Minimize fees and short-of-funds risk
- Monitor and adjust currency and interest rate exposure
- Manage investing and borrowing decisions on a timely basis
- Act as an in-house bank to subsidiaries and use additional excess funds to offer ad hoc discounts to suppliers in exchange for early payment

## Summary

In all economies, there are a myriad of benefits to be gained from automating processes that drive working capital optimization. In the current economic environment, automation is a critical factor of corporate sustainability. As discussed, many factors contribute to the current inefficiencies and significant improvement is necessary across a wide range of organizations and activities. Success requires:

- Automation to maximize the completeness, accuracy and timeliness of the daily transaction flows that affect cash
- Implementation of connectivity and messaging standards to ensure visibility to and management of all banking activities
- Control of liquidity through transformation of data into actionable intelligence

As always, success requires cross-organizational commitment, but solutions are available and the benefits profound.

## About Bottomline?

Bottomline Technologies (NASDAQ: EPAY) provides collaborative payment, invoice and document automation solutions to corporations, financial institutions and banks around the world. The company's solutions are used to streamline, automate and manage processes involving payments, invoicing, global cash management, supply chain finance and transactional documents. Organizations trust these solutions to meet their needs for cost reduction, competitive differentiation and optimization of working capital. Headquartered in the United States, Bottomline also maintains offices in Europe and Asia-Pacific. For more information, visit [www.bottomline.com](http://www.bottomline.com).



Footnote 1 - "The Future of Cash and Working Capital," KPMG in conjunction with CFO Research Services, 2008.

Footnote 2 - David Katz, "Good to the last drop: Even though revenues are scant, plenty of cash remains to be squeezed from supply chains, says a new study [from REL, a division of the Hackett Group]," CFO, March 2010.

Footnote 3 - Scott Pezza and William Jan, "E-Payables 2010: The Strategic Value of Accounts Payable Automation," Aberdeen Group, August 2010.

Footnote 4 - "Strategic Treasury Survey," *Treasury & Risk*, December/January 2009.



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