



This presentation was originally given by:

Robert S. Jaffe, Director
Treasury Management Services
American Express

For questions about this material contact Robert at:

Robert.s.jaffe@aexp.com

**GENERATING WORKING CAPITAL THROUGH
ACCOUNTS PAYABLE AND PURCHASING**



**Tax & Business
Services**

**Robert S. Jaffe
Director, Treasury Management Services**

Tremendous opportunity for A/P and Purchasing to make an impact

Buffet cites float as key strategy -- “non-perilous borrowing”

CFO magazine names T. Meredith (Dell) as one of “The Best” citing his CCC measurement

Corporations establishing strategic purchasing initiatives

REL annual study analyzes “days of working capital”

IOMA, IAPP, professional publications

Management committee regularly monitors DPO of goods sold

A/P and Purchasing professionals control lifeblood of a corporation -- Cash Flow

A/P and Purchasing can mine hidden assets

Strategic partnering can unearth retained cash

A/P and Purchasing can generate millions in cash and discounts

What A/P and Purchasing can gain from Vendor Payment Optimization™

Proven benchmark for float (days payable outstanding - DPO)

1% - 1.5% of 365 days or 3.7 - 5.5

Proven benchmark for discounts in exchange for days in terms

0.03% - 0.15% of annual payables

Unite A/P and Purchasing to champion a measurable focused process

- Start with vendor purchase history
- Organize top vendor data
- Quantify historical dollar-weighted payment timing
- Correct incorrect internal terms
- Group data by category, terms and buyer

Typical discoveries at outset of VPO process

	<u>Benefit</u>
20 net vendors with old terms in master files	\$2 mm cash
6 discount vendors with old terms in master files	\$200,000 EBT
Net 30 vs Net 50 negotiated with \$50 mm vendor not in system	\$2.7 mm cash
ROG 3 days after invoice date on \$1.1B justifies terms negotiations	\$9.9 mm cash
2%30 vs 1%10 for \$60 mm EDI vendor not in system	\$800,000 EBT
Reducing frequency of check runs on \$0.9 billion adds 1 day	\$2 mm cash

INVENTORY INVOICE N 30 INTERNAL N 45

<u>VENDOR NUMBER</u>	<u>VENDOR NAME</u>	<u>INVOICE AMOUNT</u>	<u>INVOICE DATE</u>	<u>CHECK DATE</u>	<u>DAYS</u>	<u>A/P ASSOCIATE</u>	<u>\$\$-WEIGHTED DAYS</u>
1905514		78,535	05/14	06/28	45	CZK	3,534,093
1905514		76,260	04/12	05/27	45	GMT	3,431,718
1905514		13,662	04/09	05/24	45	NLN	614,790
1905514		78,750	03/01	04/15	45	GMT	3,543,750
1905514		73,599	11/30	01/14	45	GMT	3,311,955
1905514		2,448	07/23	09/07	46	CZK	112,608
1905514		79,200	07/08	08/23	46	CZK	3,643,200
1905514		5,514	05/21	07/06	46	CZK	253,658
1905514		6,831	02/04	03/22	46	NLN	314,226
1905514		74,189	11/16	01/01	46	GMT	3,412,712
1905514		13,662	06/30	08/16	47	NLN	642,114
1905514		76,428	06/23	08/09	47	CZK	3,592,107
1905514		6,831	03/17	05/03	47	NLN	321,057
1905514		77,384	03/17	05/03	47	GMT	3,637,048
1905514		6,831	03/03	04/19	47	NLN	321,057
1905514		80,011	02/10	03/29	47	GMT	3,760,536
1905514		6,831	01/06	02/22	47	NLN	321,057
1905514		6,831	06/06	07/26	48	NLN	327,888
1905514		79,646	04/27	06/14	48	CZK	3,822,989
1905514		77,141	01/15	03/04	48	GMT	3,702,749
1905514		73,925	11/24	01/11	48	GMT	3,548,381
1905514		9,729	07/20	09/07	49	NLN	476,280
1905514		13,662	11/09	01/01	53	NLN	724,086
1905514		13,662	11/01	01/01	61	GMT	833,382
		1,031,554					48,203,440

MOST FREQUENT RANGE OF DAYS 45 - 61

\$\$-WEIGHTED-AVERAGE DAYS 47

INVENTORY INVOICE 1% 10 N 30 INTERNAL 1% 10 N 60

<u>VENDOR NUMBER</u>	<u>VENDOR NAME</u>	<u>INVOICE AMOUNT</u>	<u>INVOICE DATE</u>	<u>CHECK DATE</u>	<u>DAYS</u>	<u>A/P ASSOCIATE</u>	<u>\$\$-WEIGHTED DAYS</u>
1920634		51,444	02/04	02/11	7	TRE	360,111
1920634		48,486	01/25	02/01	7	TRE	339,402
1920634		51,343	04/28	05/06	8	TRE	410,741
1920634		658	01/06	01/14	8	TRE	5,267
1920634		49,429	08/09	08/19	10	TRE	494,293
1920634		51,356	06/07	06/17	10	TRE	513,559
1920634		46,699	05/31	06/10	10	TRE	466,988
1920634		49,004	05/24	06/03	10	TRE	490,041
1920634		47,394	05/10	05/20	10	TRE	473,943
1920634		48,908	03/15	03/25	10	JG1	489,075
1920634		40,507	06/30	07/12	12	TRE	486,084
1920634		40,190	08/31	09/13	13	TRE	522,472
1920634		46,290	07/27	08/09	13	TRE	601,775
1920634		52,219	04/16	04/29	13	TRE	678,848
1920634		51,031	04/09	04/22	13	TRE	663,400
1920634		2,218	02/22	03/08	14	TRE	31,053
1920634		41,110	03/31	04/19	19	TRE	781,092
1920634		41,903	04/30	05/20	20	TRE	838,062
		760,190					8,646,207
1920634		48,848	01/15	03/18	62	TRE	3,028,577
		806,753					

MOST FREQUENT RANGE OF DAYS 7 -20

\$\$-WEIGHTED-AVERAGE DAYS 11

EXPENSES INSURANCE

<u>VENDOR NUMBER</u>	<u>VENDOR NAME</u>	<u>INVOICE AMOUNT</u>	<u>INVOICE DATE</u>	<u>CHECK DATE</u>	<u>DAYS</u>	<u>A/P ASSOCIATE</u>	<u>\$\$-WEIGHTED DAYS</u>
1906242		44,589	06/29	07/01	2	MCU	89,178
1906242		1,484	06/29	07/01	2	MCU	2,969
1906242		45,298	04/27	04/29	2	MCU	90,597
1906242		1,484	04/27	04/29	2	MCU	2,969
1906242		44,763	08/25	08/30	5	MCU	223,815
1906242		1,484	08/25	08/30	5	MCU	7,422
1906242		42,382	05/27	06/01	5	MCU	211,908
1906242		1,484	05/27	06/01	5	MCU	7,422
1906242		44,401	01/27	02/01	5	MCU	222,006
1906242		1,119	01/27	02/01	5	MCU	5,594
1906242		45,111	07/23	07/29	6	MCU	270,663
1906242		1,484	07/23	07/29	6	MCU	8,906
1906242		48,203	02/27	03/08	9	MCU	433,823
1906242		1,311	02/27	03/08	9	MCU	11,795
		324,597					1,589,064
1906242		38,408	03/27	04/12	16	MCU	614,526
1906242		2,378	03/27	04/12	16	MCU	38,052
1906242		48,227	12/27	01/21	25	MCU	1,205,683
1906242		1,502	12/27	01/21	25	MCU	37,559
		415,113					

MOST FREQUENT RANGE OF DAYS 2 - 9

\$\$-WEIGHTED-AVERAGE DAYS 5

Focus through Vendor Payment Optimization™ process

Optimize finer points of payment timing float

- Redesign check run parameters
 - Fewer check runs can create float
 - Logic of invoices paid in check run enhances float
 - Different parameters for net and discount check runs

Redesign check run parameters

DAILY

Current Float for Push Forward of
Saturday and Sunday to Monday

M	0
T	0
W	0
TH	0
F	0
S	+2
SU	+1

$$\frac{+3}{7} = +.43 \text{ days}$$

MON., WED., FRI.

Revised Float for Push Forward of
Saturday and Sunday to Monday

M	0
T	+1
W	0
TH	+1
F	0
S	+2
SU	+1

$$\frac{+5}{7} = +.71 \text{ days}$$

Net Gain = +.28 days

Key to VPO Process with Purchasers

“If you don’t ask, someone can never say yes”

How A/P and Purchasing can gain

Arm buyers with negotiating leverage and strategies

- Formula and tables of discounts in exchange for days in terms

Train in best practices for payment terms

Train in what's in it for supplier

Decide strategy for each vendor negotiation and note on buyers' implementation guide

Calculation for exchanging float for discounts

$\frac{\text{Discount Rate}}{\text{Cost of Capital}} \times 365 \text{ days} = \text{Days must pay past discount terms to break even}$

$\frac{2\%}{10\%} \times 365 \text{ days} = 73 \text{ days past discount terms to break even}$

$\frac{1\%}{7\%} \times 365 \text{ days} = 52 \text{ days}$

$\frac{0.5\%}{20\%} \times 365 \text{ days} = 26 \text{ days}$

Decision Tool For Negotiating

Based on 7%

Float Value				Discount Value		
Annual Purchases	60 vs. 30 Days	45 vs 30 Days	60 vs 10 Days	1%	1.5%	2%
\$ 100,000	\$ 575	\$ 288	\$ 959	\$ 1,000	\$ 1,500	\$ 2,000
\$ 500,000	\$ 2,875	\$ 1,440	\$ 4,795	\$ 5,000	\$ 7,500	\$ 10,000
\$ 1,000,000	\$ 5,750	\$ 2,880	\$ 9,590	\$ 10,000	\$ 15,000	\$ 20,000
\$ 3,000,000	\$ 17,250	\$ 8,640	\$ 28,770	\$ 30,000	\$ 45,000	\$ 60,000
\$30,000,000	\$172,500	\$86,400	\$287,700	\$300,000	\$450,000	\$600,000

$$\frac{\text{Annual Purchases} \times \text{Days Payment Negotiated}}{365 \text{ Days}} \times \text{Rate (\%)} = \text{Annual Purchases} \times \text{Discount \%}$$

$$\text{Days Negotiated} = \frac{\text{Discount \%} \times 365 \text{ Days}}{\text{Rate (\%)}}$$

Reference story

\$0.9 billion annually by check for inventory and operating expenses

Increased cash a priority (DPO)

Paid vendors in 50 to 60 days

Additional discounts a priority

200 top inventory and expense vendors represent 80% of payables

Preserve good vendor relationships

Reference story

No one analyzed float and still untapped grace periods for top 200 vendors

- Historical payment ranges and \$-wtd average days to pay
- Timing of vendors' inquiries after skips, deductions and payments
- Relationships of A/P processors with each vendor for other clues
- Check run procedures

No one implemented a focused initiative for buyers to negotiate terms, vendor-by vendor

- Lead and fallback negotiation strategy for vendors selected by buyers

Vendor Payment Optimization™ Conducted

Customized rescheduling generated \$9 million new cash

Redesigned check run procedure generated \$2.5 million new cash

Buyers developed terms strategies for 30% of payables

Good vendor relationships preserved

Benefit summary on \$0.9 billion

Rescheduling payments 0.7% (2.6 \$-wtd days) on 200 top vendors \$6.3 million

Redesigning check run procedure 0.3% (1.1 days) \$2.7 million

Value of cash at 7%: \$630,000

Conservative goal for buyers' negotiations for improved terms

1% average discounts on 50% of 30% of purchases

45 days in exchange for discounts

Net value of discount negotiations: \$190,000

Annual Benefit: \$820,000

<u>Vendor Name</u>	<u>Annual Purchases</u>	<u>Invoice Terms</u>	<u>Internal Terms</u>	<u>Analysis Findings</u>
---------------------------	--------------------------------	-----------------------------	------------------------------	---------------------------------

_____	\$18 million	Net 30	Net 50	Rarely calls
-------	--------------	--------	--------	--------------

Payment range: 51 to 58

\$-wtd average: 54

Good relationship

Set internal term to: _____?

Vendor Name	Annual Purchases	Invoice Terms	Internal Terms	Analysis Findings
------------------------	-----------------------------	--------------------------	---------------------------	------------------------------

_____	\$40 million	Net 60	Net 60	Calls regularly
-------	--------------	--------	--------	-----------------

Payment range: 58 to 69

_____				\$-wtd average: 62
-------	--	--	--	--------------------

Good relationship

Set internal term to: _____?

<u>Vendor Name</u>	<u>Annual Purchases</u>	<u>Invoice Terms</u>	<u>Internal Terms</u>	<u>Analysis Findings</u>
---------------------------	--------------------------------	-----------------------------	------------------------------	---------------------------------

_____ \$4 million

1% 10

1% 10

Calls on skips at 40 days

Longer due dates specified on invoices

Payment range: 10 to 15

_____ \$-wtd average: 12

Never disallows

Good relationship

_____ Set internal term to: _____?

VENDOR PAYMENT OPTIMIZATION™**GROUPED BY TERMS**

REF #	VENDOR NUMBER	VENDOR NAME	BUYER	ANNUAL PAYMENTS	INTERNAL TERMS	INVOICE TERMS	RANGE (DAYS)	\$-WTD (DAYS)
2			MK	17,000,000	N90	N90	90 - 105	95
11.			JB	7,000,000	N60	N60	60 - 82	63
7			RJ	1,000,000	N60	N60	60 - 93	69
51			BB	2,000,000	N50	N45	50 - 72	54
14			FB	4,000,000	N50	N45	48 - 61	52
10			FB	6,000,000	N45	N30	44 - 62	49
28			BB	10,000,000	N30	N30	29 - 32	30
13			BB	5,000,000	2% 10	2% 10	10 - 21	12
5			JB	9,000,000	1% 30	1% 30	29 - 40	33

<u>Vendor Name</u>	<u>Annual Purchases</u>	<u>Invoice Terms</u>	<u>Internal Terms</u>	<u>Analysis Findings</u>
---------------------------	--------------------------------	-----------------------------	------------------------------	---------------------------------

_____ \$25 million

Net 30

Net 30

Calls regularly

Payment range: 30 to 44 days

\$-wtd average: 31 days

Good relationship

Competitor gives 2%20

Lead negotiation strategy _____?

_____ Fallback negotiation strategy _____?

<u>Vendor Name</u>	<u>Annual Purchases</u>	<u>Invoice Terms</u>	<u>Internal Terms</u>	<u>Analysis Findings</u>
---------------------------	--------------------------------	-----------------------------	------------------------------	---------------------------------

_____	\$3 million	Net 30	Net 55	Calls at 50 days
-------	-------------	--------	--------	------------------

Payment range: 54 to 68 days

\$-wtd average: 59

May need cash

Good relationship

Lead negotiation strategy _____?

Fallback negotiation strategy _____?

Vendor Name	Annual Purchases	Invoice Terms	Internal Terms	Analysis Findings
_____	\$3 million	Net 30	Net 30	Regularly calls and faxes monthly
_____				9% of invoices pricing discrepant
_____				Payment range: 32 to 96 days
_____				\$-wtd average: 36 days
_____				Good relationship
_____				Lead negotiation strategy _____?
_____				Fallback negotiation strategy _____?

Phrases Purchasers use to achieve agreements with vendors

“Management requires us to unify terms”

“Our other supplier provides 60-day terms”

“We plan to increase our business with you”

“We can pay you in 15 days for a 1% discount”

“You need to improve invoice payment quality

“Another supplier provides 2%20”

Outcome of Purchasing component of VPO process

Some vendors immediately oblige

Some say no

Some carefully analyze

Some vendors give discount through price rather than terms

Float benchmarks from VPO process

<u>Annual Inventory and Operating Expenses</u>	Range of <u>Additional Cash</u>	
	<u>1%</u>	<u>2%</u>
\$20 million	\$200,000	\$400,000
\$200 million	\$2 million	\$4 million
\$1 billion	\$10 million	\$20 million
\$10 billion	\$100 million	\$200 million

Discounts in exchange for days benchmark from VPO

Annual Inventory _____ Percent of Annual Payables
and Operating Expenses _____ and Value

0.03%

0.15%

\$20 million

\$ 6,000

\$ 30,000

\$200 million

\$ 60,000

\$ 300,000

\$1 billion

\$ 300,000

\$ 1,500,000

\$10 billion

\$3,000,000

\$15,000,000

Vendor Payment Optimization™ is time-honored

Looking at a business process in a focused, systematic way always pays off

VPO is quantitative and logical

- A/P reps and Purchasers grow professionally
- Immediately implementable in any A/P system
- Results are measurable
- Preserves good vendor relationships

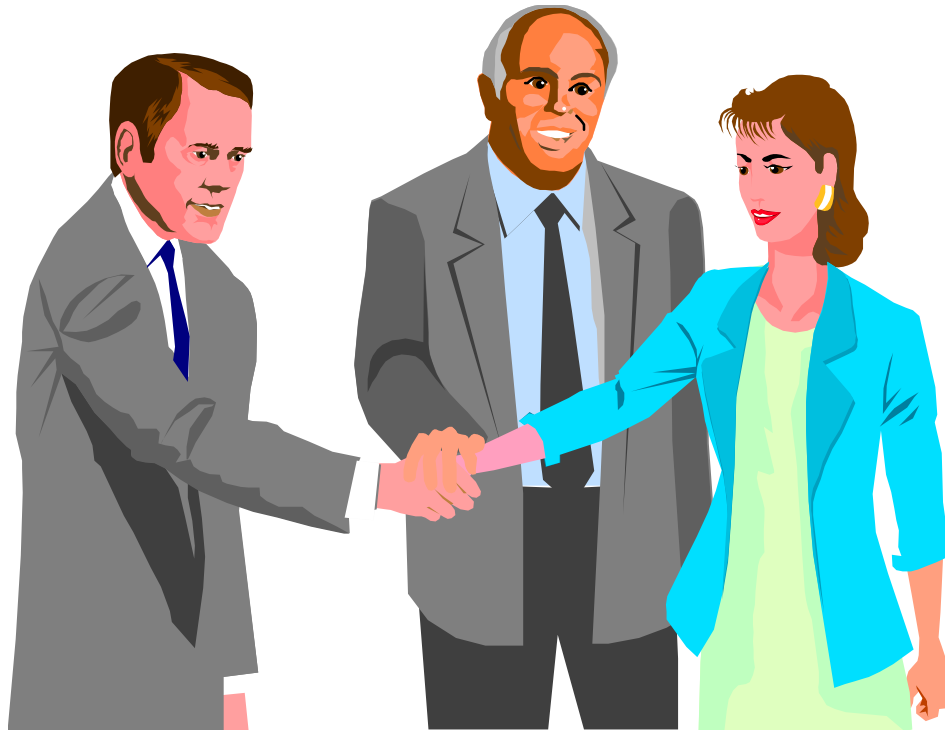
Corporations hit home runs with VPO!

So can !

Thank You!



®
Tax & Business
Services



ROBERT S. JAFFE

Director-Treasury Management Services

(212) 372-1324

(212) 372-1077 (Fax #)

robert.s.jaffe@aexp.com **(E-Mail)**

Bob Jaffe has provided specialized knowledge of cash management to numerous middle market and Fortune 100 companies for 27 years. Noted for his analytical approaches to determine cost-beneficial solutions, Mr. Jaffe specializes in:

- Vendor Payment Optimization™
- Comprehensive profit improvement analysis of treasury management systems
- Requests for proposals for banking services
- Unraveling bank account analysis charges
- Lockbox and disbursement studies
- Accounts receivable and deduction follow-up systems

Bob established the firm's Treasury Management Services Practice in 1991 after a 20-year career in cash management consulting at National Westminster Bank, Chase Manhattan Bank and Coopers & Lybrand. American Express Tax and Business Services Inc. (formerly Goldstein Golub Kessler) is the eighteenth largest accounting and consulting firm in the United States.

He lectures for IOMA/IMI, Financial Executive Institutes, American Management Association, Treasury Management Conferences, CPA Societies and other forums. Bob is published in *Treasury and Risk Magazine*, *IOMA's Managing Accounts Payable, Receivables and CashFlow Enhancement Reports*, *Women's Wear Daily* and *Business Credit*.

Mr. Jaffe holds a B.S. in Mechanical Engineering from CCNY and an MBA from UCONN. Mr. & Mrs. Jaffe live in Short Hills, New Jersey.