

Transforming Payments: Building a Business Case for Change

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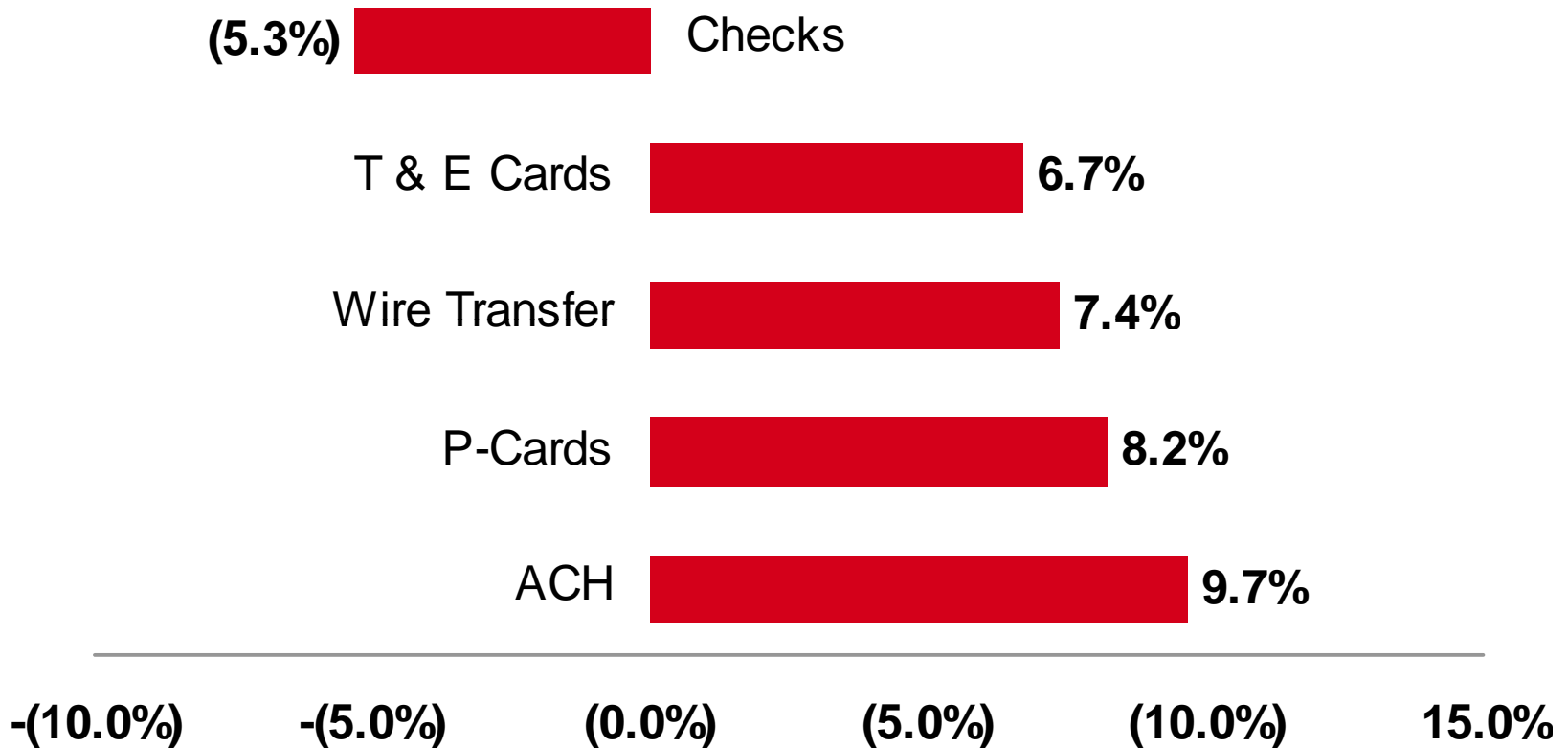
Payments Automation

Challenges Brought on by Today's Economy

- How can my AP department process the same payments volume with reduced staff?
- Is there a better way to increase payment visibility and better take advantage of early pay discounts?
- Can we reduce processing costs while maintaining or improving internal controls?
- Can we extend our cash flow without impacting our vendors and suppliers?
- Can we help the company generate revenue?
- In today's environment, how can we cost-effectively reduce the amount of paper we process, and achieve our corporate "green" goals?

B2B Payments: The Changing Mix

Increase in utilization of Electronic Payment Methods



Despite ePayments growth, 65%-75%+ of all B2B AP Payments are still made via checks

Automation and Outsourcing – Invoice to Payment

Transforming Payments – Why should you care?

- Best in class companies leveraging AP automation outperform their peers

Performance Area

Invoice Processing costs
Processing Cycle-time
Late payments
Staff time responding to inquiries

Best in Class Advantage

91% lower
46% shorter
12% fewer
30% less

Automation can drive:

- Better working capital management, more efficient terms management and visibility
- Improved vendor relationships, as automation drives value for both parties in the transaction
- Improved controls, compliance, and transaction transparency

Focus on Automating the AP Payments function

Best in Class Performance in payments processing

Performance Area	Best in Class	All Others
Payments made on-time	74.3%	68.5%
On-time payments that earn discounts	58.5%	47.2%
Payments settled electronically	40.5%	34.0%

The value of migrating AP payments from paper to electronic and enabling automation can deliver beyond cost savings

(Percent of Organizations)

TOP THREE BENEFITS OF SENDING OR RECEIVING ELECTRONIC PAYMENTS

	All Respondents	Revenues Under \$1 Billion	Revenues Over \$1 Billion
Cost Savings	59%	62%	58%
Improved cash forecasting	41	42	39
Straight-through processing to A/P or A/R	32	29	37
More efficient reconciliation	31	31	31
Fraud control	29	25	31
Working capital improvement	28	29	31
Better supplier / customer relations	27	30	24
Reduction in days sales outstanding	24	23	27
Ability to take early payment discounts	15	13	18
Other	3	3	1

Source: 2007 AFP Payments Study; Aberdeen Strategies for Success Dec. 2006



Automation Scorecard

While companies have been successful in driving paper to electronic payments migration and automation improvements in some areas...

Process	Percent Automated
Check Printing	58%
Payment Scheduling	46%
Purchasing Cards	46%
T&E Management	45%

...challenges remain in driving efficiencies in processes where reliance on vendor adoption is needed.

- 74% of B2B AP payments are paper-based
- 85% of Invoices are submitted via paper
- 80% of invoice activity is paper-based

Barriers to Expanding eInvoicing and ePayments

Vendor adoption

- Top reason cited for not expanding ePayments: Trading partners inability to send or receive automated remittance information with electronic payments (77 percent)*
- Inability to electronically submit invoices represents a larger hurdle

Additional challenges preventing automation

- Shortage of IT resources for implementation (76 percent)
- Ability to construct compelling business case for change
- Accounts Payable departments not aligned with finance and procurement groups to agree on and drive change

*Sources: 2007 AFP Payments Study

The Good News

P2E migration of vendor payments and remittance delivery is happening now, and new technology in AP Invoice and Payment processing automation is leading the way

- 2007 AFP Payments Study: 43% of companies “very likely” to convert the majority of its B2B payments to majority suppliers from paper to electronic
- 82% of businesses stated they are “geared up” to migrate for e-payments shortly (IOMA 2007 AP Bench Study)

Building a Business Case for Change

Building the Business Case: Successful Strategies

**Driving change in your current payments process is achievable.
Successful strategies can include the following:**

- A detailed, accurate view of the current payments process and opportunities to improve
- Clearly define reasons for change (goals, benefits, and expected results)
- Link the changes to your company's broader strategy (cost containment, growth through using technology)
- Gain consensus to change by key stakeholders by aligning interests
- Constructing a compelling — and believable — business case for change
- Make certain the Accounts Payable department is aligned with finance and procurement groups to agree on and drive change

Key Organizational Considerations

Companies best positioned to drive automation and processing improvements:

- AP viewed as strategic part of broader procure to pay process
- Strong relationships between procure to pay stakeholders to address divergent goals:
 - Procurement → drive down vendor prices/increase COGS
 - AP → drive down transaction processing costs
 - Treasury → extend DPO and strategically manage Working Capital
 - IT → leverage investment in ERP System
- Shared service center structure
- Willingness to look outside the organization to identify and drive best –practices
 - Vendor rationalization
 - Supplier enablement
 - Straight through processing
- Companies that understand their current processes:
 - Strong visibility into current process
 - Procedures and process detail clearly documented, and baseline costs for key tasks can be measured
- Executive commitment for change

Getting Started

Step 1: Conduct a high-level E2E audit by key payment types

- By Payment-type (expense reimbursements, vendor payments, PO & Non-PO Payments)
- Document your key process flows
- Identify key points of pain, improvement opportunities

Key Questions

- What percentage of your AP payments is by check?
- Does the current process enable you to maximize early pay discounts?
- Are controls in place to identify and minimize potential late payments?
- Can you identify where a payment is within the approval process, and what (if any) disputes remain?
- Does the current process allow payments and cash flow visibility?
- Is reporting adequate to support effective working capital management?
- How many times is your organization copying, touching the paper?
- Are key processes documented, and baseline costs measured?

Gaining organization buy-in for change

Step 2: Selling the need for change

- Identify key internal stakeholders (Treasury, Finance, Controller, Procurement, Technology, Audit)
- Socialize the potential benefits for each stakeholder
- Develop the business case:
 - Processing cost savings (labor, fees, cash flow, discount attainment)
 - Audit, Risk, and SOX compliance improvements
 - Supplier benefits
 - Working Capital Management goals
 - IT project avoidance
- A Key Component: the financial benefits model

Constructing the Financial Benefits Model

Step 3: Developing the Financial Benefits Model

- Best-in-class solutions should result in a compelling business case based on the following hard-dollar items:
 - Processing Cost Savings
 - Float and Working Capital Benefits
 - Rebates (AP payments converted to Card)
- Best-in-class solutions should drive value based on:
 - Proven supplier enrollment program and documented “Day 1” value
- Strategic benefits important, however hard-dollar savings alone should justify decision to move ahead
- Constructing the business case is easier than you think!

Quantifying the Benefits

Comprehensive Check to Electronic Payment Service

Total estimated annualized checks migrated	[number]
Average processing savings per check migrated	[\$amount]
Value of extended float	[\$amount]
Potential rebates for card-based AP payments	[\$amount]
Estimated gain from improved terms management	[\$amount]
Total savings of bank services	[\$amount]
TOTAL Estimated Annualized Net Benefit	[\$amount]
<i>Other Key Performance Indicators:</i>	
Percentage of payments migrated to electronic payments	[percentage]
Percentage of vendors converted to electronic payments	[percentage]
Reduction in vendor inquiries	[percentage]

Building the Financial Benefits Model: An example of Payments Transformation

- \$100M (million) in non-payroll AP; average transaction is \$1,000; 100,000 transactions per year
- 80% of AP payments made via check (80% of total AP \$ spend)
- Days payable outstanding is 37 days (net 30 + 7 days mail float)
- Assuming the level of “average” automation (\$3.63 approximate savings per payment)
- Assume the following:
 - 5% cost of funds
 - Convert 50%, or 40,000 paper checks to electronic as follows:
 - ACH increases by 30,000 transactions (\$32M spend)
 - Card increases by 10,000 transactions (\$8M spend)
 - Assume 20 days extended float savings on check to card migration
 - 50 basis points rebate on card spend
- Additional benefits can be realized with compliance, transparency, and data integration

Building the Business Case: Example of Check to Electronic Payments Value Proposition

COMPREHENSIVE CHECK TO ELECTRONIC PAYMENT SERVICE	
Total estimated annualized checks migrated (25% of checks)	40,000
Average savings per check migrated*	\$3.63
Total savings for check migration*	\$145,200
Value of float (\$8mm for 20 days at 5%)	\$21,918
Estimated rebate (Based on \$8M x 50 bps)	\$40,000
Total estimated annual benefit savings annuity*	\$207,118

* Savings does not include improved terms management/capturing early pay discounts



Building the Business Case: An Example of P-Card Value Proposition for Low \$ Payments

- Transactions < \$5,000 comprise 67.1% of transactions but only 6.4% of \$\$\$
- Moving transactions < \$1,000 and half of those between \$1,000 and \$5,000 provides \$625K annual benefit

	# of Transactions View			\$ Volume View				
	Transactions (6 Months)	Transactions (Annualized)	Percentage (Total #)	\$ Disbursed (6 months)	\$ Volume (Annualized)	Percentage (Total \$)		
Total Universe	42,045	84,090	100.0%	\$333,015,061	\$ 666,030,122	100.0%		
Less Takeouts:					\$ -			
- Credits	432	864	1.0%	\$ (1,235,340)	\$ (2,470,680)	-0.4%		
- Deferred Comp.	170	340	0.4%	\$ 1,031,875	\$ 2,063,750	0.3%		
- Other	5,912	11,824	14.1%	\$ 4,258,809	\$ 8,517,618	1.3%		
Total Takouts	6,514	13,028	15.5%	\$ 4,055,344	\$ 8,110,688	1.2%		
Total Targeted Spend	35,531	71,062	84.5%	328,959,717	\$ 657,919,434	98.8%		
Targeted Spend x Threshold							% Cumulative	% Cumulative
< \$1,000	21,122	42,244	50.2%	\$ 5,133,555	\$ 10,267,110	1.5%	50.2%	1.5%
\$1,000 - \$4,999	7,088	14,176	16.9%	\$ 16,250,159	\$ 32,500,318	4.9%	67.1%	6.4%
\$5,000 - \$24,999	5,369	10,738	12.8%	\$ 60,679,476	\$ 121,358,952	18.2%	79.9%	24.6%
\$25,000 - \$99,999	1,432	2,864	3.4%	\$ 67,237,760	\$ 134,475,520	20.2%	83.3%	44.8%
\$100,000 +	520	1,040	1.2%	\$179,658,767	\$ 359,317,534	53.9%	84.5%	98.8%
Total Target	35,531	71,062	84.5%	\$328,959,717	\$ 657,919,434	98.8%	84.5%	98.8%
P-Card Benefit View (Annual)	# Trans.	\$ Volume	Avg \$ / Tran	% Pcard	Pcard \$ Vol	Pcard Tran #	\$ Save/Tran	\$ Saved
< \$1,000	42,244	\$ 10,267,110	\$ 243	100%	\$ 10,267,110	42,244	\$10	\$ 422,440
\$1,000 - \$4,999	14,176	\$ 32,500,318	\$ 2,293	50%	\$ 16,250,159	7,088	\$10	\$ 70,880
Total Target	71,062	\$657,919,434	\$ 9,258		\$ 26,517,269	49,332		\$ 493,320
Pcard Efficiency Gain (\$10/Tran)		\$ 493,320						
Pcard Rebate (50 bps)		132,586						
Total Benefit to Client		\$ 625,906						

Evaluating the Options

Step 4: Evaluating the options – a focus on ePayments and remittance delivery

- Best-in-class solutions will enable the following:
- Single file, single-provider solution that leverages existing ERP & A/P systems, driving P2E card and ACH ePayments
- Single provider, multi-payment solution that maximizes rebate potential
- Proven vendor on boarding program that maximizes P2E migration in a manner that benefits you most
- Specialized tools that maximize card program expansion

Evaluating the Solution Providers

Step 4: Evaluating the options: a high-level checklist

- Will adopting the solution result in changing core payment processes and compromise (versus strengthen) existing controls in place?
- Does the provider have proven experience in interfacing with my specific AP system? Will the solution leverage my existing system?
- Is the solution scalable? Can I start with converting paper checks to Card payments, then expand to ACH, paper-check/wire, with one AP interface and single-file? eInvoicing receipt and processing as well?
- How will the solution drive quick, meaningful vendor adoption with minimal disruption to my business? Is there an established network that will deliver Day 1 value? Is there flexibility to drive vendors to my preferred payment method (Card vs. ACH)?
- Will the provider deliver an ROI analysis based on proven historical vendor adoption and cost savings? Will the provider partner to develop and track metrics?
- Will the provider work with me to develop the business case for change?

Case Study

Case Study

Company A is a large convenience store retailer and gasoline marketer with over 1,000 outlets in New England, the Mid-Atlantic States and Florida.

Challenge

Company A issues 88,000 paper checks and remittances to vendors annually. Having recently completed an ERP systems upgrade, a directive was made by Senior Management to further leverage their existing AP systems investment and current processes. Project objectives included: 1) **Reduce the number of paper checks issued**; 2) **Reduce costs and enable internal AP resources to be deployed in areas of greater value**; and 3) **bring the accounts payable department payment processes in line with best practices**. While they saw the potential value of migrating vendors to electronic AP Payments, they knew they had to develop a strong business case that delivered substantial, tangible cost benefits. Moreover, the mandate was to **drive change with minimal IT resources**.

Solution: Comprehensive Payables: (ePayables and PayMode)

Bank of America's Comprehensive Payables solution was **implemented in three months**. A turnkey vendor enrollment program strategically driving vendor adoption first to ePayables, then to PayMode, was completed within six months. **Daily business processes have changed very little**; PayMode and ePayables transactions are automatically flagged in the new ERP system, a one-time change, and passed in a single file to Bank of America for processing. Consequently, **IT resources and AP staff time needed to complete the implementation was minimal**.

Benefits Realized

Within the first 9 months, Company A has **migrated 36,000 paper checks (41% of total)** to ePayables and PayMode. **Accounts Payable staffing was reduced 17%**, as paper check printing moved from a daily to weekly process – a savings of 20-25 hours per week. **Reductions in the number of voided checks**, stop-payments, and phone calls and emails related to the status of supplier payments were also realized. **Internal controls were reinforced** to enforce second signatures, cited as an area of improvement. **Costs were eliminated** associated with maintaining vendor bank account information and processing ACH returns. Company A is eligible for an **annual cash rebate** from Bank of America based on the dollar amount of purchases made via ePayables, and is in the process of adding a P-Card program to maximize the rebate potential.

“The speed in which the vendors were enrolled, and the number of vendors that adopted the solution exceeded our expectations. Our ability to project cash flow has been greatly enhanced which has proven to be a strong benefit to treasury. Our forecasts are more accurate, which limits the amount of working capital we need to maintain. The performance of the PayMode and ePayables solutions has far exceeded our expectations.”



Pulling it all together

- The role of Accounts Payable and Treasury is more important than ever
- Technology improvements resulting in more options than ever to improve core processes, and drive meaningful bottom-line results
- However, increasing complexity in operating environments and expanding choice set can be daunting
- Keys to success - Do not attempt to tackle all opportunities concurrently; prioritize solutions that;
 - Can be quickly implemented
 - Improve a core process
 - Easily adopted both internally and with customers and vendors
- Finally, we are here to help!

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