

# Early Payment Discounts & AP Automation

OCTOBER 2016





# Agenda

## Discussion Topics

- 1. Early Payment Discounts – A Case Study
- 2. Early Payment Discounts – An Opportunity
- 3. AP Automation – We Can Do Better
- 4. Next Steps
- 5. Questions

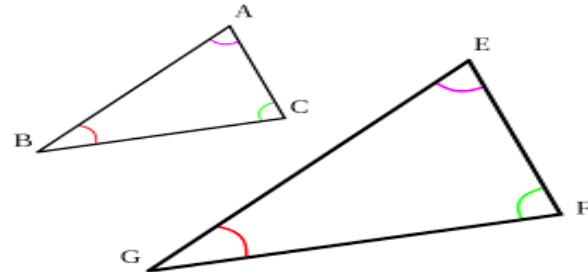


# Early Payment Discounts

A CASE STUDY

# A Case Study

- ▶ Massachusetts
  - A leader in early payment discounts among States
- ▶ Key Similarities to Oklahoma
  - Decentralized Accounts Payable
  - Centralized Financial System
  - Limited business process standardization
  - No AP Automation
  - Similar workflow



# A Case Study

- ▶ Program began in 2006
- ▶ Contract-Specific Discounts
- ▶ Varying Discounts
  - Net 45 Standard Terms
  - Discounts at 10, 15, 20, 25, 30 days
  - Varying Discount Percentages up to and including 5%
  - If no discount offered, vendor paid at 45 days.



# A Case Study

- ▶ Massachusetts – No automated AP
- ▶ Worked with agencies to review their manual AP process and helped them streamline and eliminate unnecessary steps
- ▶ Reported that 75% of steps in the process were unnecessary

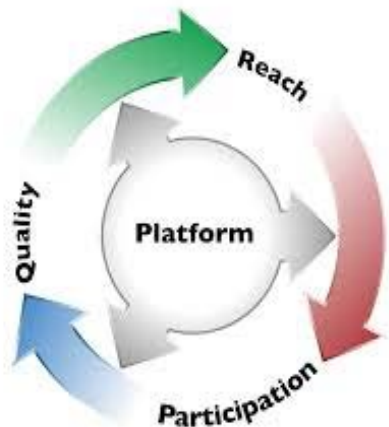


# A Case Study

- ▶ Transparency
  - Website & Reporting
- ▶ Peer Pressure within State Agencies
  - Press
  - Competition



# A Case Study

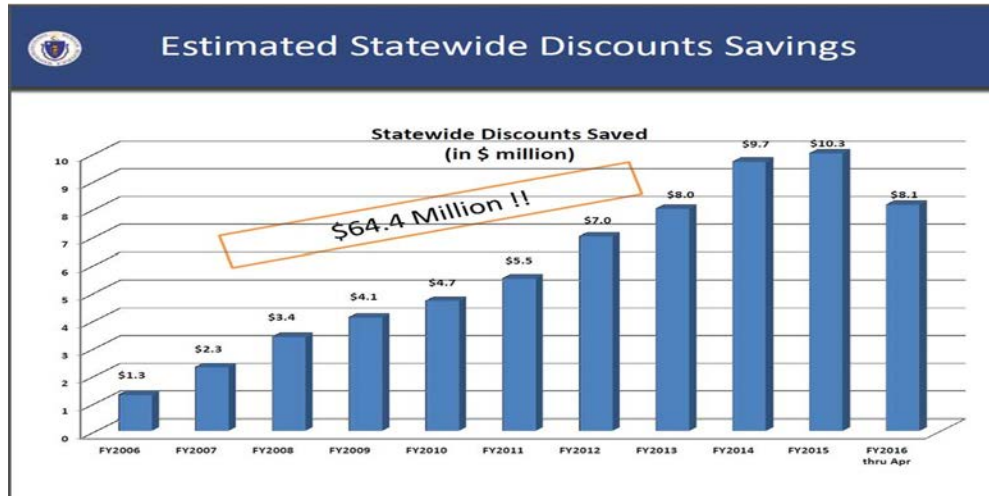


- ▶ Benefits Vendors
  - Money Faster
  - Consistent Payment
- ▶ Benefits State
  - Improved Processes
  - Savings to spend elsewhere
- ▶ Benefits State Citizens
  - More funds for services





# A Case Study



## FY2011 to FY2015 Annual and FY2016 Q1/Q2/Q3 PPD Discount Taken and Discount not Taken

	FY11	FY12	FY13	FY14	FY15	FY16 thru Q3
Discounts Taken	\$5,526,000	\$6,973,832	\$7,970,683	\$9,673,021	\$10,316,916	\$7,251,031
Discounts Not Taken	\$1,972,000	\$1,874,287	\$1,916,214	\$2,755,483	\$3,763,928	\$2,611,392



# Early Payment Discounts

AN OPPORTUNITY

# An Opportunity

## ▶ 3<sup>rd</sup> Quarter FY16 Data for MA

Total Payments	\$1,638,495,209.25
Payments with Discounts Available	\$201,866,684.14
Percentage of Payments with Discounts Available	12.32%
Percentage of Discounts Taken Where Available	73%
Average Discount	1.65%



# An Opportunity

- ▶ Oklahoma FY Estimates (using MA percentages from Q3 FY16)

Total Payments	\$4,700,000,000.00
Payments with Discounts Available	\$579,051,687.24
Payments with Discounts Taken	\$421,237,195.31
Discounts	\$6,968,443.92



# An Opportunity

- ▶ How does OK achieve MA numbers?
- ▶ No AP Automation Required!
  - Remember, MA has no AP automation
- ▶ Business process review and re-engineering
  - MA reports removing 75% of steps as "unnecessary"
- ▶ OMES to configure PeopleSoft system to handle PPD



# An Opportunity

- ▶ Add Discounts to All Solicitations and Bid Review Criteria
- ▶ Implement new 'policy' that state will pay invoices at 45 days unless discount is offered
- ▶ Add early pay addendum to website for modifying contracts for vendors who want to be paid earlier
- ▶ Begin *requiring* language in all new contracts



# Third Party Vendors

- ▶ Some of the benefits over a third-party program
  - One process for all invoices
  - State retains 100% of discount
  - State controls technology and processes and does not become locked into one vendor
  - All agencies benefit rather than only those that enroll in third-party program



# Agency Action

- ▶ Review AP process and eliminate steps
- ▶ Review current contracts and report any that have terms included
- ▶ Contact DCAR with concerns or special circumstances that should be considered
- ▶ Put discount terms in all new contracts
- ▶ Communicate with vendors





# AP Automation

WE CAN DO BETTER

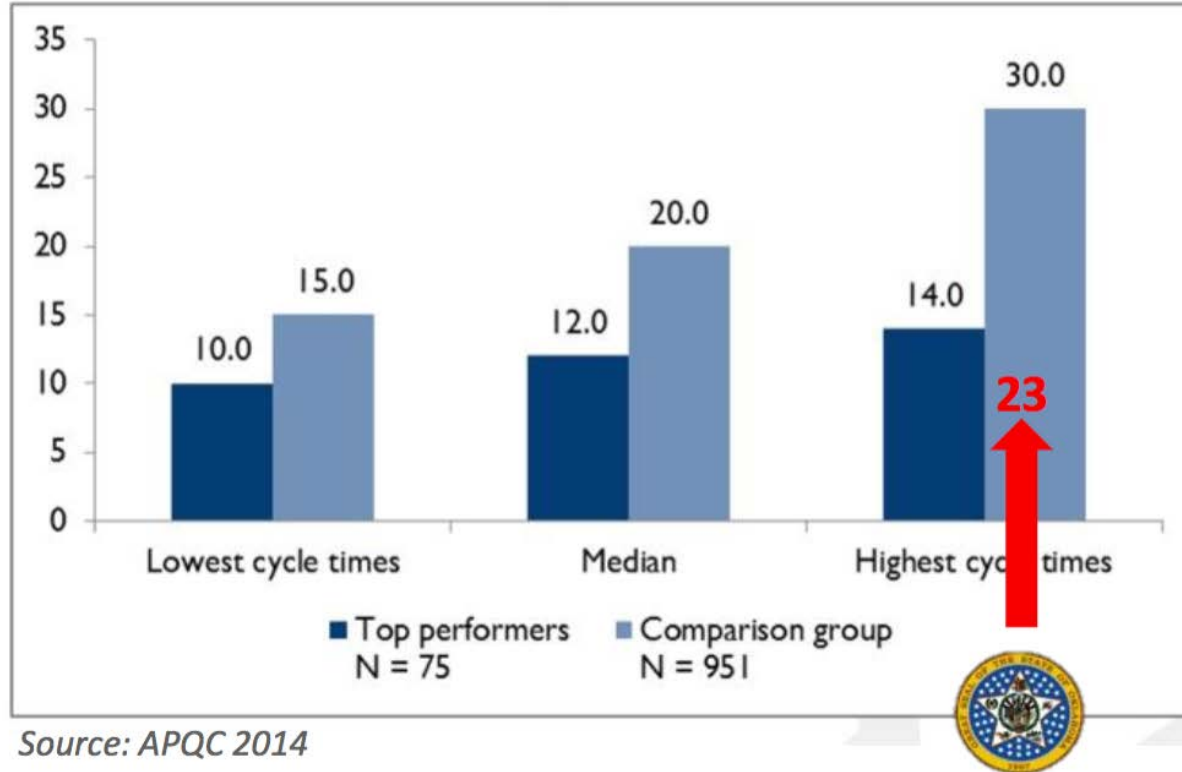
# AP Automation

- ▶ "The Commonwealth lost the opportunity during the first nine months of FY2016 to save an additional \$2.6 million **due to delayed payment (invoice) processing by departments.**"



# AP Automation

*Cycle Time in Days from Receipt of Invoice Until Payment Is Transmitted*



# AP Automation

- ▶ Tangible Benefits of Implementing an AP Automation Solution
  - Reduction in transactional labor activities
  - Reduction in paper, storage, and handling
  - Reduction in audit and compliance costs
  - Capture of additional early payment discounts



# AP Automation – Example

## Current Process



=Invoice printed from Scanned image

Scan to PDF

Scan to Repository

Time and Resource Intensive!




Route to Approver



# AP Automation – Future Process

Scan to PDF; Email;  
Fax: EDI; Web  
Services, Etc.



Freeing resources to  
work on value-added  
activities!

Automatically Collect  
Invoices

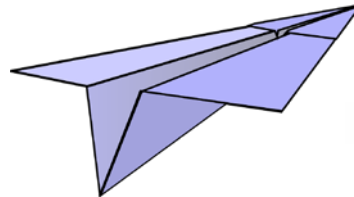
Automatic Invoice  
Matching (2/3 Way)

- Automatically Route Exceptions to Appropriate AP Staff

Automatically Route  
Invoice for Electronic  
Approval

Pay Invoice

No more printing printing!  
No more paper!



# AP Automation

- ▶ Will result in shorter time from invoice to payment
  - Can realize higher percentage of early payment discounts
  - Fewer human hours to process invoices (lower cost to do business)
- ▶ Accountability in the process
  - No longer need to manage approval authority outside the process
- ▶ Analytics to monitor the overall process and spend of the State
  - Improved visibility into “dollars in flight”
- ▶ Automated two and three-way matching
  - Alleviate clerical errors from keying
  - Free up AP Clerks to focus on exceptions entirely and not on routine invoices
- ▶ “Up Front” scanning
  - Invoices routed electronically, so no more printing and re-scanning



# AP Automation - Statewide

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
<b>ESTIMATED BENEFITS</b>						
Productivity Through AP Automation (Soft Dollar Savings)	\$2,736,204	\$4,104,306	\$5,472,408	\$5,472,408	\$5,472,408	\$23,257,734
Early Pay Discounts Through AP Automation (Hard Dollar Savings)	\$818,026.25	\$1,519,191.49	\$2,337,217.48	\$2,337,217.48	\$2,337,217.48	\$9,348,870
<b>Total AP Automation Benefits</b>	<b>\$3,554,230</b>	<b>\$5,623,497</b>	<b>\$7,809,625</b>	<b>\$7,809,625</b>	<b>\$7,809,625</b>	<b>\$32,606,604</b>
Early Pay Discounts Available without Automation (Hard Dollar Savings)	\$2,271,197	\$4,217,937	\$6,489,133	\$6,489,133	\$6,489,133	\$25,956,531
<b>Total AP Automation Benefits + Full Early Pay Discounts</b>	<b>\$5,825,427</b>	<b>\$9,841,434</b>	<b>\$14,298,758</b>	<b>\$14,298,758</b>	<b>\$14,298,758</b>	<b>\$58,563,135</b>
<b>ESTIMATED COSTS</b>						
Software Support	\$176,044	\$358,688	\$495,672	\$343,468	\$43,468	\$1,717,339
Managed Cloud Hosting	\$192,000	\$192,000	\$192,000	\$192,000	\$192,000	\$960,000
Implementation Services	\$350,000	\$175,000	\$100,000			\$625,000
<b>Total Cost</b>	<b>\$930,742</b>	<b>\$1,221,985</b>	<b>\$1,496,667</b>	<b>\$535,468</b>	<b>\$535,468</b>	<b>\$4,720,329</b>
<b>NET</b>						
Net Attributable to AP Automation (Hard and Soft Savings)	\$2,623,488	\$4,401,512	\$6,312,958	\$7,274,157	\$7,274,157	\$27,886,275
Discounts Not Attributable to AP Automation	\$2,271,197	\$4,217,937	\$6,489,133	\$6,489,133	\$6,489,133	\$25,956,531
<b>Net Annual Savings (AP Automation + Full Early Pay Discounts)</b>	<b>\$4,894,685</b>	<b>\$8,619,449</b>	<b>\$12,802,091</b>	<b>\$13,763,290</b>	<b>\$13,763,290</b>	<b>\$53,842,806</b>





# Summary

- ▶ Early Pay Discounts and AP Automation are not dependent upon one another
- ▶ However, AP Automation allows the State to fully realize discounts available
- ▶ AP Automation also helps improve internal processes and adds much needed accountability, metrics, and analytics to the AP process



# Next Steps

# Next Steps

- ▶ Compile Information from Agencies
- ▶ Begin Early Pay Discounts Project
  - Streamline AP processes throughout the state
  - Change business process to hold payment with no discount to pay on 45th day
  - Place in Solicitations Now
  - Negotiate with Vendors
- ▶ Move forward with AP Automation



# Questions?

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