
CASH RECOVERY AS A PROCESS, NOT A PROJECT

By Barbara Kuryea

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The Problem

Every year companies issue millions of dollars in overpayments and walk away from millions more in the forms of lost rebates, missed pricing discounts, and non-refunded returns. Regardless of company size and internal controls, overpayments and other missed opportunities will almost certainly occur.

Statistics show that the average company overpays by 0.1% to 0.2% of what they spend with their vendors. Results show that the percentage of errors is consistent between the highest and lowest levels of company spend. Traditional cash recovery is labor intensive, making it nearly impossible to address the entire spend population, and can result in leaving millions of dollars for vendor AR departments to manage as unclaimed property.

Since you conduct business with vendors as an on-going process, a comprehensive recovery effort should be an on-going process too, not a sporadic project. Also, since errors occur across the spectrum of vendors, it should include 98% to 99% of your company's spend. Recovering un-applied cash and validated credits from your suppliers' AR saves money twice: once by getting it back to your balance sheet, and a second time when your suppliers do not incur the costly escheat process. This results a win-win situation for you and your supplier, thus actually improving your relationship with them.

Overpayments can be caused by simple human error, computer error, or miscommunication, and can often be attributed to inaccuracies in vendor data due to the complex and dynamic requirements of managing and maintaining accurate information on potentially many thousands of vendors. A nationally recognized service provider has recently analyzed recovery root-causes and has identified the following common errors:

- Invoices routed for approval create delays result in rebilling, with the potential for multiple invoices being approved for payment.
- Freight bills are not properly cross-referenced to shipments or receipts.
- Cash discount terms offered are not taken.
- Trade discounts are missed.
- Sales tax is billed by the supplier and paid, but the supplier does not submit to the state when the supplier recognizes their customer is either self assessing or buying raw materials for resale.
- Payments are made to the wrong supplier.
- Errors are made by suppliers applying cash.
- Returns to suppliers are processed by the company with internal credits.
- Warranty purchases are invoiced and paid, then corrected with internal credits by the supplier.
- Volume rebates are credited internally between related suppliers.
- Quantity and unit of measure errors affect billing, receiving, and payment.
- Freight is invoiced in error or at the wrong rate.
- Communication gaps exist between departments, which can result in overpayments or duplicate payments.
- A purchase is paid for with a credit card, but the supplier also sends an invoice which is also paid by the customer.

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- A department makes a purchase and submits a signed statement/invoice for payment. A duplicate payment can also be made for this purchase based on the three way match of invoice, receipt, and purchase order.
- Evaluated Receipt Settlement (ERS) creates a payment based on the receipt entered into the ERP system. Duplicate payments can result from this process.
- A receipt is entered from a packing slip and another receipt is entered from a freight bill, and both receipts were for the same shipment.
- The PO price is used to create the payment, but volume-based discounting cannot be factored into this process.
- When returns are processed for goods already paid, there is no process or system in place to refund the payment or replace the shipment.

Potential Solutions

The best solution is to partner with a comprehensive cash recovery firm that focuses on your entire spend and at the same time enhances the mutual relationship you have with your suppliers. Look for companies that can leverage automation technology to take labor out of the process so you maximize your return.

Without an expert firm with advanced software to manage on-going communications and to reconcile your AP transactions to your suppliers' AR records, companies can do the following:

- Instruct suppliers to only send invoices to central Accounts Payable, not to distributed business locations.
- Enter invoices individually, not grouped together.
- Create and enforce a strong invoice number policy to ensure that everyone on the team who has access to enter an invoice uses the correct supplier number, invoice number, invoice date and enters the dollar amount broken down from net to gross (handling of tax, freight, and discount).
- Work closely with vendors; an important, but difficult and time consuming, aspect of this work is to maintain good communication with your suppliers.

Significant opportunities may exist within your company to eliminate financial exposure from mismanaged AP transactions. Adding internal staffing to investigate and resolve errors is often cost-prohibitive. Partnering with a specialized firm who brings process expertise and state-of-the-art system technology can often provide a more cost-competitive solution to the problem. If the firm you use can make their automation and vendor management tools available to you on an on-going basis, you'll be able to minimize future issues and financial exposure.

About Barbara Kuryea

Barbara Kuryea is the owner of AP Consulting Services where she consults on accounts payables. She's also been the Program Director for the National Association of Purchasing and Payables (NAPP) for a number of years.

About Lavante

Lavante is helping to educate and promote discussion within the AP profession about the ever-changing and increasingly strategic role of AP within the larger business organization. We team up with industry experts to bring you topical and relevant whitepapers, and articles discussing wide-ranging issues such as: how to turn a recovery audit into a strategic audit for long-term impact; how to manage your vendor file to improve cash flow; and, other procure-to-pay trends and best practices that matter to you, the AP professional. For current topics, visit our blog at www.lavante.com/the-hub.

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