

Our "Payment on Time" initiative has created a number of tangible business benefits for our client including a better credit position and enhanced business relationships, enabling more effective collaboration with partners across the value chain.



Payment on Time Case Study

Capgemini partners with Global Control Equipment Manufacturer to increase the number of invoices paid on time

Manufacturing companies like our client, a Global Control Equipment Manufacturer, have highly complex supply chains, with a supplier network that is often spread all over the world. As a result, supply networks can be highly complex and often require "just in time" deliveries or "just in sequence" production. If companies like our client do not make timely payments, the impact on their credit position can be detrimental to the organization. It also increases the likelihood of late deliveries, which, in turn, affects production. One example of why such late payments may be commonplace can be traced back to the large number of different vendors.

The Business Need

Our client is a global leader in providing energy-efficient and climate-friendly solutions for various industries, making payments to 6,000-7,000 vendors each month across more than 100 countries. The company faced a difficult situation where 30% of all invoices were not paid on time, adversely affecting its vendor relationships and damaging its credit position. As a consequence, our client's supply chain became more volatile and vulnerable to disruptions, which impacted both deliveries and the production process. The manufacturer found it increasingly difficult to maintain a favorable public relations image and overall creditability – two areas that have always been of paramount importance for our client.



Potential Benefits for the Manufacturer

Many industrial manufacturers, including our client, operate highly intricate supply chains that can be easily disrupted by untimely or missed payments. Fluctuating demand and commodity prices, combined with currency volatility and shifting buying patterns can diminish manufacturers' profits, increasing their costs and preventing them from capitalizing on market opportunities. Effective management and end-to-end visibility across the supply chain can help ensure timely payments, which, in turn, provides valuable benefits to the business, such as:

- Boosting resource efficiency
- Better tracking of activity across the supply chain
- Avoiding potential disruptions
- Driving smart product design
- Optimizing the manufacturing process

The Solution

We partnered with our client to create a solution to ensure timely invoice payments. By leveraging Capgemini's robust Analytics capabilities, the teams built a collaborative environment across the value chain to help drive strategic decision-making, enhance performance and manage supply chain complexity. The results achieved included:

- Global increase in timely payments from 70% (reported at the beginning of the partnership) to around 90%;
- Enhanced business relationships with suppliers thanks to renewed trust and reliability.

Root Cause Analysis

We carried out root cause analysis of overdue payments to discover that numerous late payments included payment cycles of less than 20 days.

To help our client address the challenges, Capgemini performed a detailed root cause analysis of late payments, which revealed that many untimely payments involved payment cycles of less than 20 days. This meant that some invoices were being received seven days or less prior to the payment date. The main causes of payment delays were identified as follows:

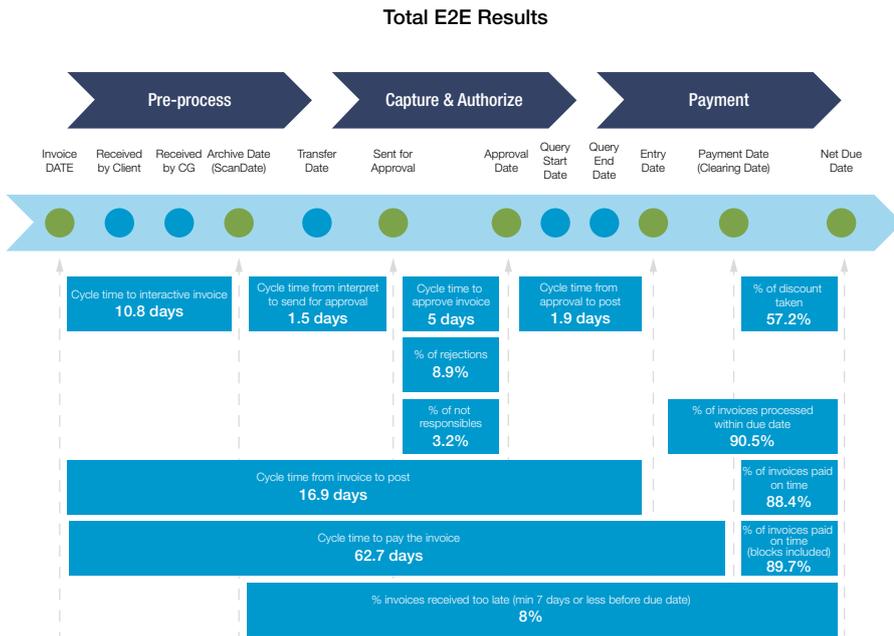
- Short payment terms
- Invoice query resolution and payment blocks
- Debit balances on vendor accounts and compensation policy
- Long and cumbersome invoice approval process
- Missing invoice details such as bank data; technical issues

Transparency, Reporting and Visual Management

We implemented process controls such as a payment run schedule and backlog control of invoice processing to enable the client to assume enhanced overall control of its operations.

An important project milestone was the implementation of a comprehensive Reporting Platform, available to both the client and Capgemini stakeholders. The automated, VBA-based (Visual Basic for Applications) reporting solution not only guarantees the effective presentation of results on a monthly basis, but also:

- Complex analysis comprising a % Payment On Time (POT) indicator, calculated on a global, regional, company code and vendor level, with the option of drill down to invoice details;
- Root causes split into categories and action areas;
- Target realization overview.



Process Controls

The root cause analysis enabled fact-based discussions to take place that provided our client with more insights for making decisions in a highly pragmatic way and to assume better overall control. Based on the results, Capgemini implemented process controls, including a payment run schedule and backlog control for invoice processing via automated VBA scripts. These were designed to monitor and identify processing issues and provide additional bank data control to ensure secure, correct, on time payments, a mandatory pre-payment run review of vendor accounts, and the creation of a generic inbox to handle urgent payment requests through a “fast track” process.



Timely Payments

The results were reviewed and new improvement opportunities identified during monthly calls between Capgemini and the client. A “tracker” was also created to register all ad hoc issues related to payment delays. The output of this tool was reviewed regularly and action plans were prepared and implemented based on the root causes identified.



Thanks to the collaboration between the teams, our client was able to apply simplified methods for guaranteeing timely payments, including:

- Extending its direct debit method for suppliers where feasible;
- Creating a back-up structure of payment approvers (at the bank) to ensure smooth and timely transfers;
- Implementing obligatory same-day-approval during payment proposal runs;
- Generation of a follow-up report on approvers twice a month, and shared with local finance team of the respective legal entities;
- Implementation of payment terms review to enable contract extension negotiations and mobilization of Procurement teams for extending and standardizing payment terms when possible;
- Introduction of automatic payment runs instead of manual (wherever possible);
- New scanning solution implementation enabling sending invoices electronically directly to the scanning platform for further OCR (Optical Character Recognition)-based verification.

Payment Factory

From a tools and processes perspective, a new scanning solution was implemented that enabled invoices to be sent electronically, making the pre-payment process more efficient. The 'Payment Factory' — an In-House Bank (IHB) solution implemented by the client — enabled automated payments/clearing for external vendors irrespective of the local bank used.

The solution has been rolled out to provide a method for making payments to external vendors for more than 25 legal entities, with this number set to rise over the course of the IHB project. The frequency of payment runs in all regions has been increased and aligned with the introduction of automatic payment runs instead of manual payments wherever possible, including:

- Domestic vendors: twice a week
- Foreign vendors: minimum of once a week
- Internal vendors: payment runs on daily basis set up automatically via Payment Factory

The Business Outcome for the Client

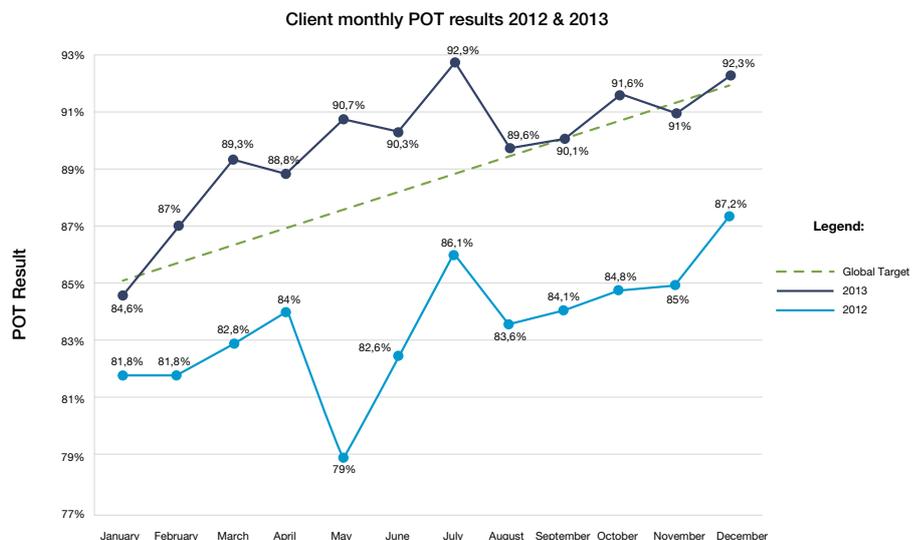
The project was dependent upon achieving a number of goals such as enhancing the rate of timely payments, heightening trust and credibility and lowering of possible delays in production.



The remarkable progress in our Payment on Time is the result of applying well-known and established methods in practice; target setting, metrics, a structured follow-up and a clear incentive structure. Add to that top management focus and our excellent cooperation with Capgemini, with highly dedicated employees from both parties supporting each other, and you have the foundation for our achievements.”

Through our collaboration with the client, the timely payment of invoices gained recognition as a top priority by the client's senior management. From its very inception, the success of this project was determined by achieving the following goals:

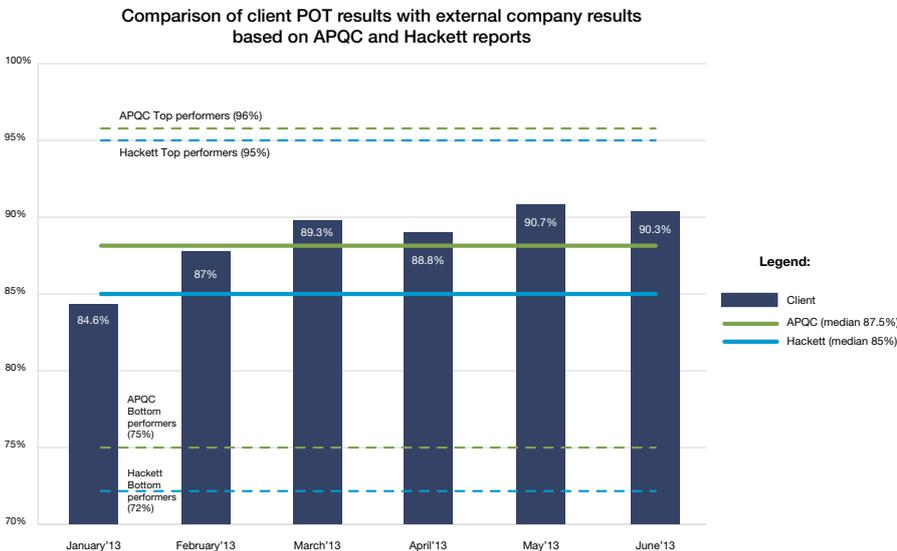
- Attaining an increase in timely payments;
- Elimination of delays in deliveries of elements/raw materials needed for production;
- Removal of, or significantly decreasing potential production delays;
- The avoidance of unnecessary costs due to the elimination of wasted working hours;
- Increased credibility and trust.



Global A/P Process Owner
Global Control Equipment
Manufacturer

POT Benchmarking

The graph below helps to showcase our client's steadily improving POT rate throughout the first half of 2013.



About Capgemini

With more than 130,000 people in over 40 countries, Capgemini is one of the world's foremost providers of consulting, technology and outsourcing services. The Group reported 2013 global revenues of EUR 10.1 billion.

Together with its clients, Capgemini creates and delivers business and technology solutions that fit their needs and drive the results they want. A deeply multicultural organization, Capgemini has developed its own way of working, the Collaborative Business Experience™, and draws on Rightshore®, its worldwide delivery model.

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- APQC 2010 source data for the Industrial Products sector;
- APQC definition for POT (Paid on Time) – 'Paid on Time' refers to a payment sent by the customer that adheres to the payment terms specified on the invoice;
- Hackett cross-industry source data from 2008.

The Results for the Client:

- Timely payments increased significantly to around 90% globally with the aim to reach 92% by the end of 2013
- Enhanced supplier business relationships due to renewed trust and reliability
- Potential scope for improved discount capture
- More efficient pre-payment process
- Implementation of external vendor payments via Payment Factory



Our client is willing to provide further information should it be required; in such cases please contact:

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