BY MICHAEL J MARTINO

Take Back the Payment Process

A cash manager makes a plea for sanity in A/P and A/R

I came into cash management in 1994, in the early days of the Financial Electronic Data Interchange era. I remember attending an EDI conference that year in Chicago, sitting in on sessions that extoled the brave new world of EDI. This new technology promised to create an era of customer satisfaction, improved transaction accuracy and increased quality. Customers and vendors would now be called “trading partners,” with an emphasis on communication and cooperation. In short, Financial EDI promised Peace, Love and Harmony—not to mention better working capital management.

However, something happened on the way to the new age. Treasury managers began to delegate the payment process to the A/R and A/P managers. While some firms such as CSX maintained a close working relationship among its Treasury, A/P and A/R managers, this was the exception more than the rule. Instead of trading partners and an emphasis on cooperation, the process began to devolve into competitive chaos. Instead of an atmosphere of “my bank product person will contact your bank product person, and we will set up your ACH payment to flow seamlessly from your A/P system into my A/R system and relieve the payables and receivables on our books”, we more often than not had one or both sides of any payment transaction possessing little knowledge or appreciation of the mechanics of an electronic payment or how it can benefit both trading partners. Today we have A/P people who tell us that they want to sell us the ability to originate an ACH payment with no remittance information. They are then able to e-mail the remittance information in the form of an Excel spreadsheet. The re-association of this new split remittance mutation only serves to create a new cash application nightmare. But these services are being offered as progress.

Payment providers are now inviting us to pay for remittance information that we once received from our customers for free

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Payment providers share some of the blame for this return to the dark ages. Our treasury people have been contacted by payment providers representing our customers to invite us to sign up for our customer’s new e-billing service and enjoy the privilege of paying for electronic receipt of the remittance information that we formerly received from these same customers for free with their ACH payments. Another unfortunate example: When another large customer decided to outsource its payments to a payment service, our treasury people were told that the new outsource provider could not or would not provide the same financial EDI transaction, which could be seamlessly applied into our receivables system, that this customer formerly had been able to provide.

The banks themselves have contributed to this balkanization of the payment process. For example, one bank has promoted a service that allows a customer to send a CTX-formatted ACH with an 820 attachment. However, the bank charges the vendor a percentage of the transaction for the privilege of receiving this payment. If the vendor does not desire to pay the fee, the bank offers an economy model format in which the vendor can receive a CCD-formatted ACH with the detail to follow sometime in the not too distant future. So much for the concept of trading partners!

Other banks seem to be inconsistent in their knowledge of the payment process. I recently worked with one customer who was allegedly told by his bank's treasury management officer that it was not EDI capable. The only problem with this statement: This same bank had recently sent me a proposal in response to an RFP for EDI services! This proposal extolled their EDI capabilities as cutting edge, and the bank was proud of its ability to reach mutually beneficial solutions for trading partners. I once told a number of bank product people at a conference presentation in 2001 that they needed to better educate their TMO's. I guess my message did not sink in.

So how do we solve the payment process problem? How do we ensure that both parties can realize the best practices benefits that were extolled back in 1994? Perhaps the fallout from the Enron and WorldCom scandals will provide the seeds for the repair of the payment process. These and other scandals have put the corporate focus back on cash flow and improved working capital management. But the solutions do not require rocket science, just plain, old-fashioned elbow grease. It is time for treasury to take back the payment process.

Treasury managers at the customer and vendor must collaborate to smooth the payment relationship. Contacts must be set up between customer and vendor to mutually determine the most effective way to ensure seamless A/R and A/P processes. Call it hand-holding, but it really is old-fashioned customer service. This new paradigm should also involve sales and marketing. The marketer should get at least a rudimentary introduction to the payment process to understand the potential working capital implications of a smooth payment relationship. The treasury manager should be included in face-to-face customer contact if at all possible. The ultimate goal for the vendor is to pitch to the customer: "This is the product/service I would like to sell you, and here's my treasury person who'll talk to your treasury person to come up with the best process for paying that will not result in any indigestion for our respective back offices."

The bank product people can benefit from this high touch, back-to-the-future movement. The Electronic Invoice Presentment and Payment (EIPP) providers need to develop a solution that allows for the customer to send an ACH credit payment. Regardless of the perceived benefits, most corporates do not like to have their accounts debited. An EIPP provider who can overcome this obstacle with an innovative approach to ACH credits and, in turn, partner with ERP providers to ensure seamless communications with vendor A/P systems should be in a position to profit from a payments renaissance.

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The philosopher G.W.F. Hegel is credited with the theory of Thesis/Antithesis/Synthesis. An idea or system will be met with its total opposite and eventually evolve into a system that is a mixture of the two. Perhaps financial EDI is at the brink of the third stage. If the treasury manager can once again become engaged in the process and begin to use the tools that have come available since the first giddy days of EDI, then maybe the dreams of EDI pioneers for customer satisfaction, improved transaction accuracy and increased quality can finally be realized. Only then will corporate treasuries experience the kind of improved cash flow and better working capital management that seamless A/P and A/R can provide.

WHO HOLDS THE REINS?

A FEBRUARY 2003 LIQUIDITY SURVEY BY THE BANK OF America found that 54% of treasurers felt they didn't have enough control over the business areas involved in working capital management. For example, more than 30% of treasurers felt they had inadequate control over payables and more than 60% felt they did not have enough control over inventories.

THE CREDIT RESEARCH FOUNDATION'S CURRENT BENCHmarking survey found that just 8% of accounts receivable departments report to treasurers. The biggest portion of AR departments, 35%, report to controllers, while 25% report to CFOs or VPs of finance, 1% to CEOs and 31% to credit managers or others.