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ORIGINAL→ESSENTIAL→UNBIASED→**INFORMATION**

Virtual AP Cards A Key Tool in Managing Working Capital

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Defining the Tool:

What is a Virtual AP Card?

Distributed Cards

Employee Purchasing cards

- For smaller dollar decentralized purchasing
- Reduces time for receipt and payment of goods
- Transactions at the Point of Purchase

Employee Travel cards

- For travel & entertainment expenses
- Preferred method of payment for these vendors
- Improves financial controls (SOX compliance)
- Transaction at the Point of Purchase

Non-Distributed Cards

Embedded Ghost Cards

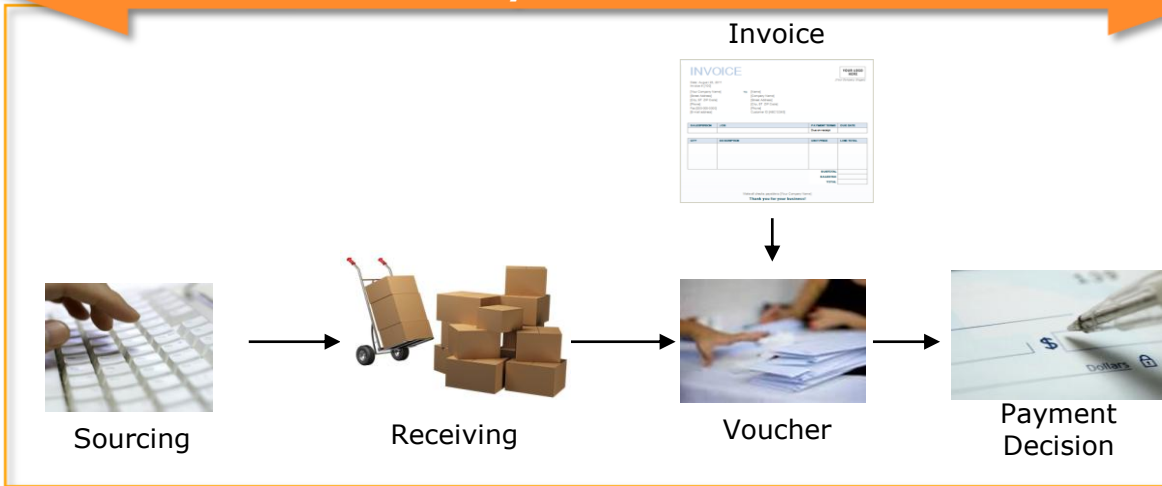
- For preferred (contract) vendor ordering
- Facilitates online ordering and payment
- Transaction at the Point of Purchase

Virtual AP cards

- Payments requiring backend approval
- Enables card settlement on PO's
- Automated solution (both push & pull)
- Transaction at the Point of Payment

Standard Purchasing Card		Virtual Accounts Payable Card
Account number located on physical cards held by employees	Account #'s	Account number provided to vendor upon enrollment or Vendor provides merchant processing information for direct settlement to their account
To specific employee(s)	Card Assignment	To specific vendor ID
Amount set by card to cover anticipated spending needs	Spending Limits	\$0 card that is funded to the specific amount of the invoice(s) on approved payment file
Review and "Approval" completed post-purchase.	Approval Process	Follows existing Accounts Payable process prior to payment being initiated.
Physical interaction with merchant (in-person, on phone, or entered into online application)	Payment	Automated advice sent to vendor upon receipt of approved payment file. Vendor initiates payment with card # on file.
A mixture of default mapping & cardholder reconciliation post transaction purchase	Accounting	Follows existing Accounts Payable process for coding payment information into accounting system prior to making payments

Current Accounts Payable Process Remains the Same



Supplier funded in 24-48 hours

Pull Settlement
(Seller-Initiated)

- Approved funds added to dedicated supplier card account
- Electronic remittance advice directed to supplier
- Supplier processes along with other card transactions

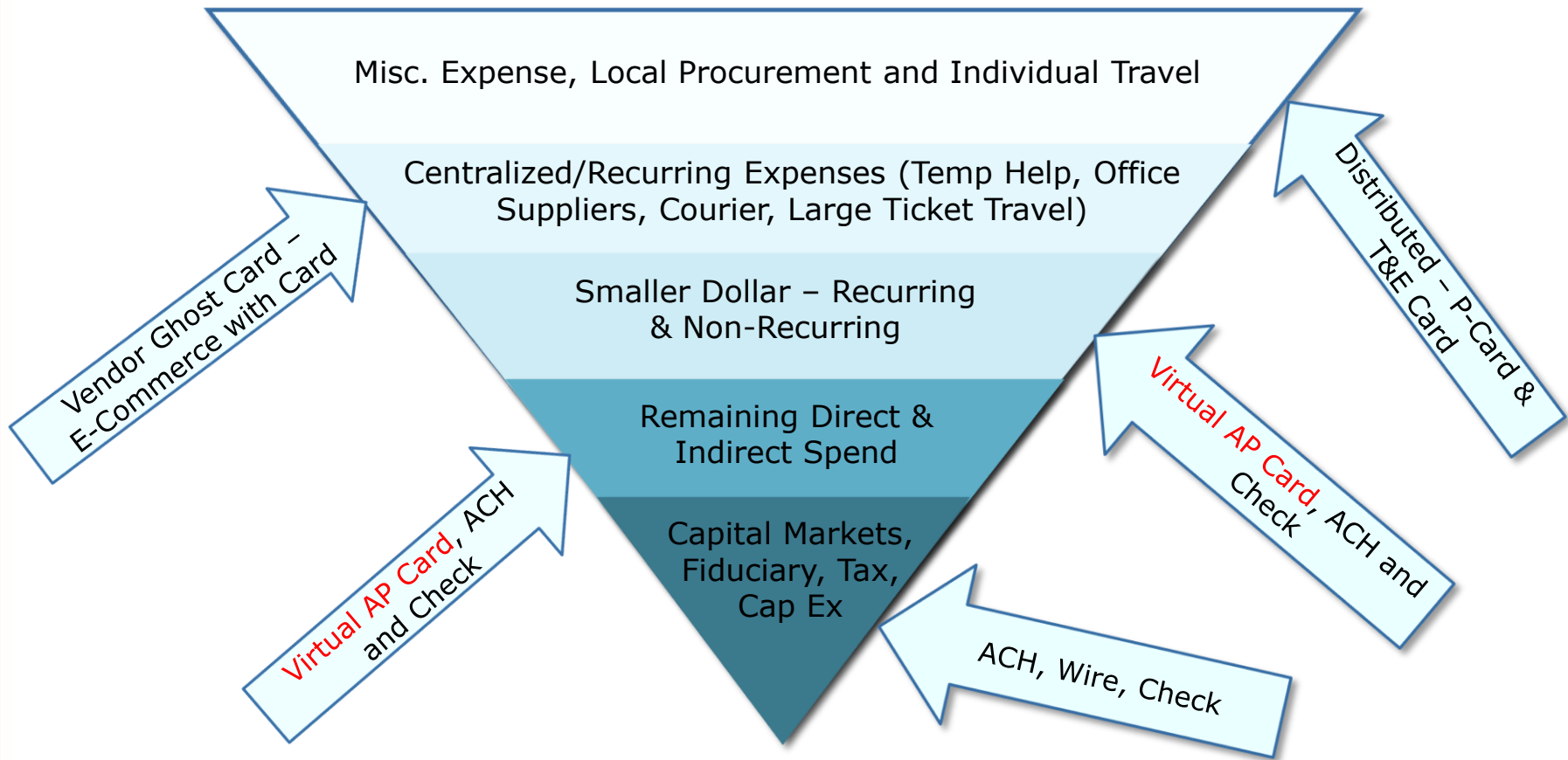
Push Settlement
(Buyer-Initiated)

- Funds directed to suppliers established merchant service account
- Electronic remittance advice directed to supplier

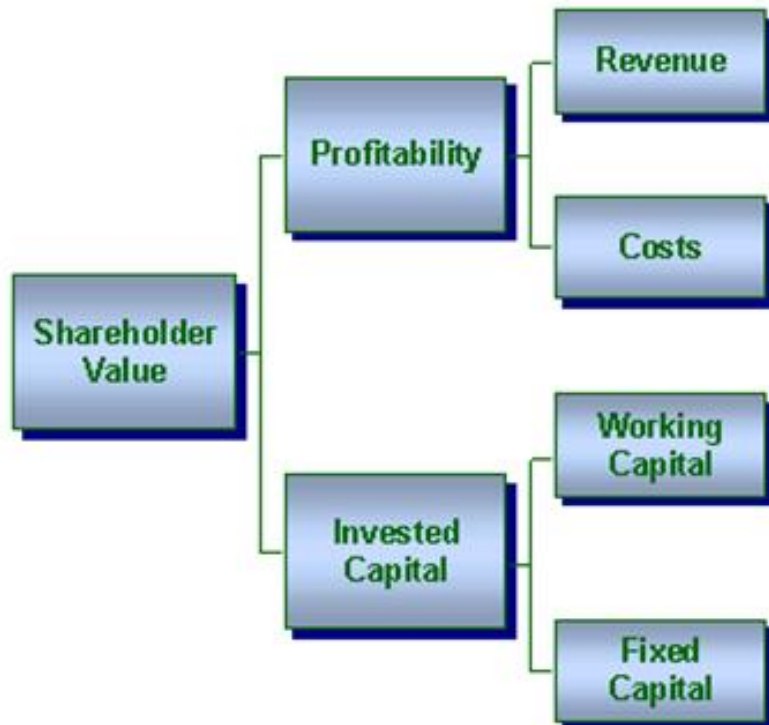
Single Use Pull Settlement

- Approved funds added to single use card account
- E-mail directed to supplier
- Supplier will obtain single use card account number, expiration date, CVV

Deployment of Virtual AP Cards



The Value of Working Capital Management



Represents 65% of assets of major companies, making it the largest component of capital employed.

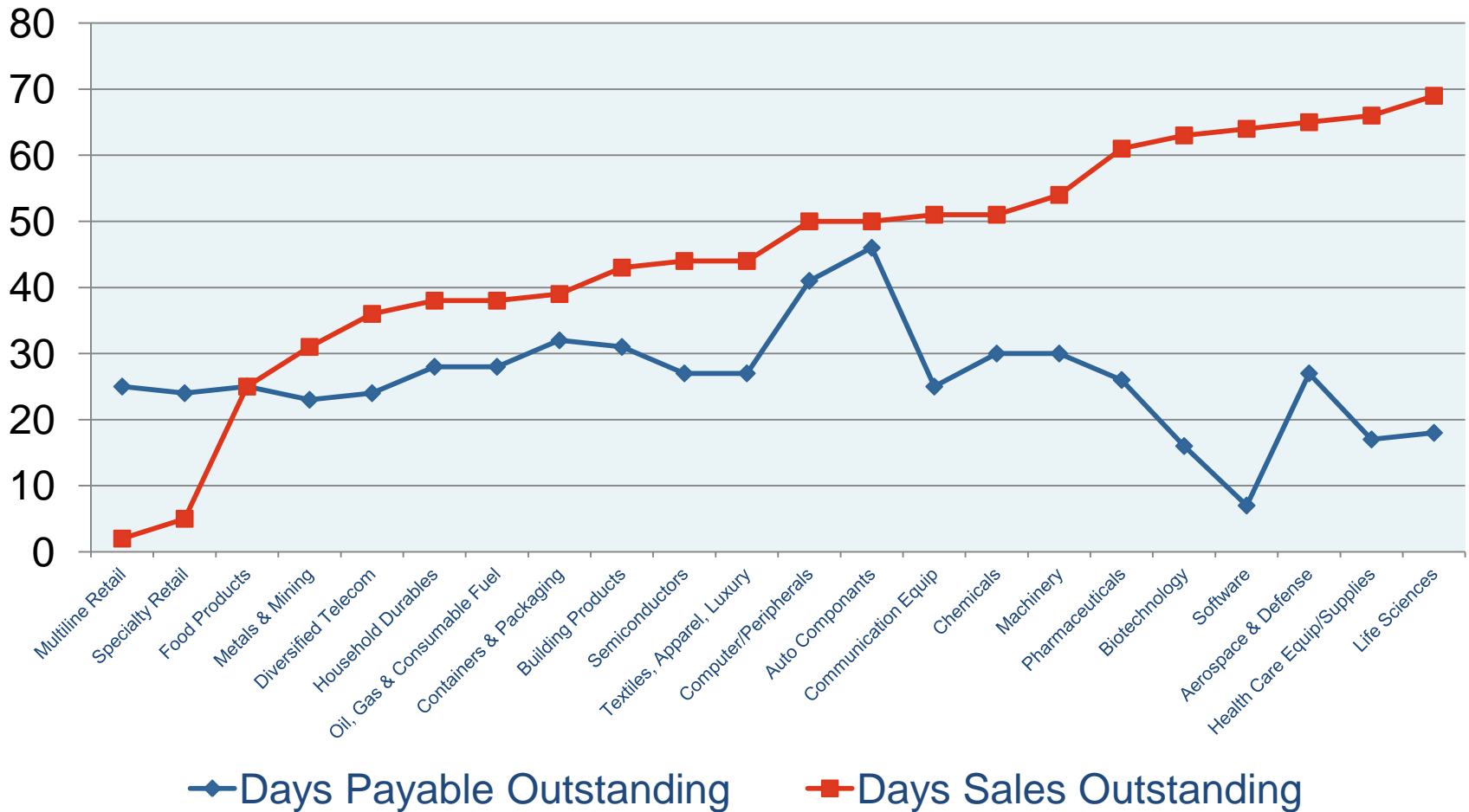
REL Consultancy

Also the most responsive to rapid improvement. For many...a Working Capital improvement program is the fastest, most cost effective means of creating shareholder value.

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“...as levers of financial management go, none bears more weight than working capital.” *CFO Magazine*

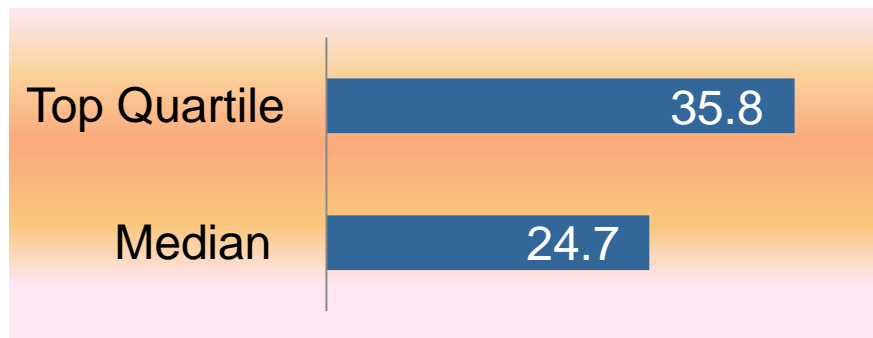
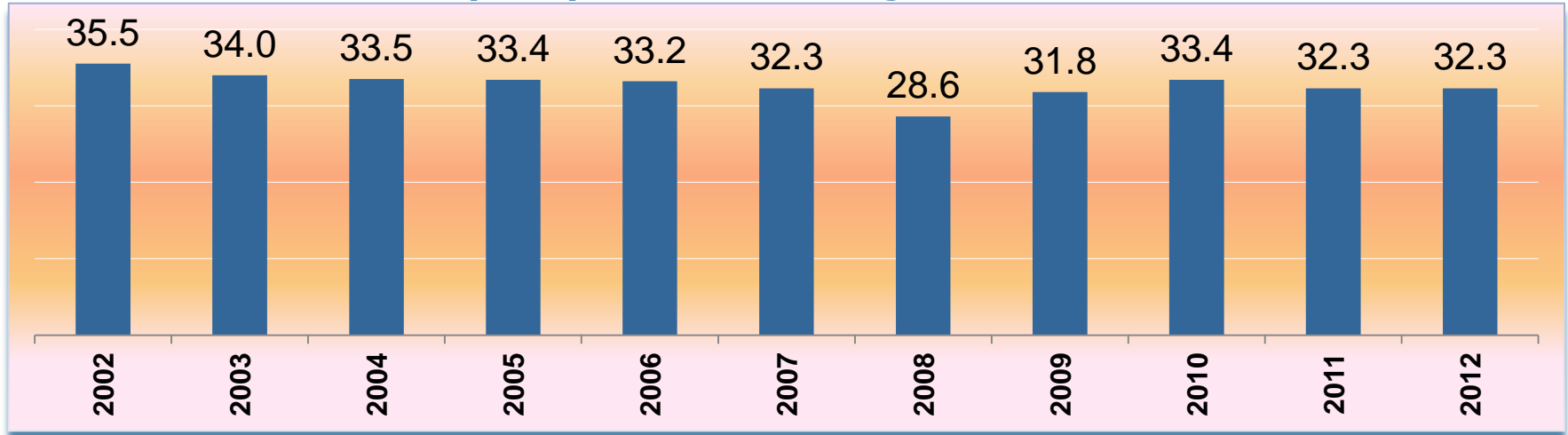
The DSO/DPO Funding Gap



Source: REL 2013 US Working Capital Survey

Days Payables Outstanding

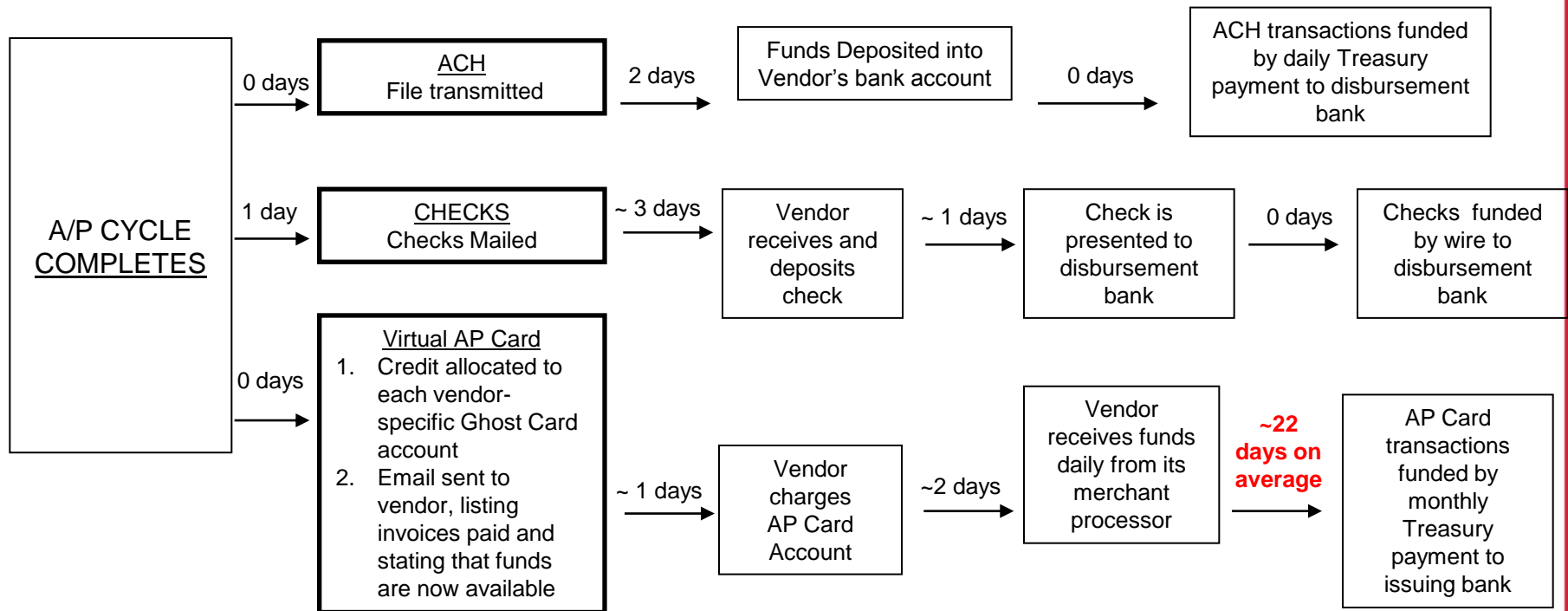
Days Payable Outstanding-REL 1000



The difference between the median and top performing companies represents \$30.3 million of cash flow per \$1 billion of sales.

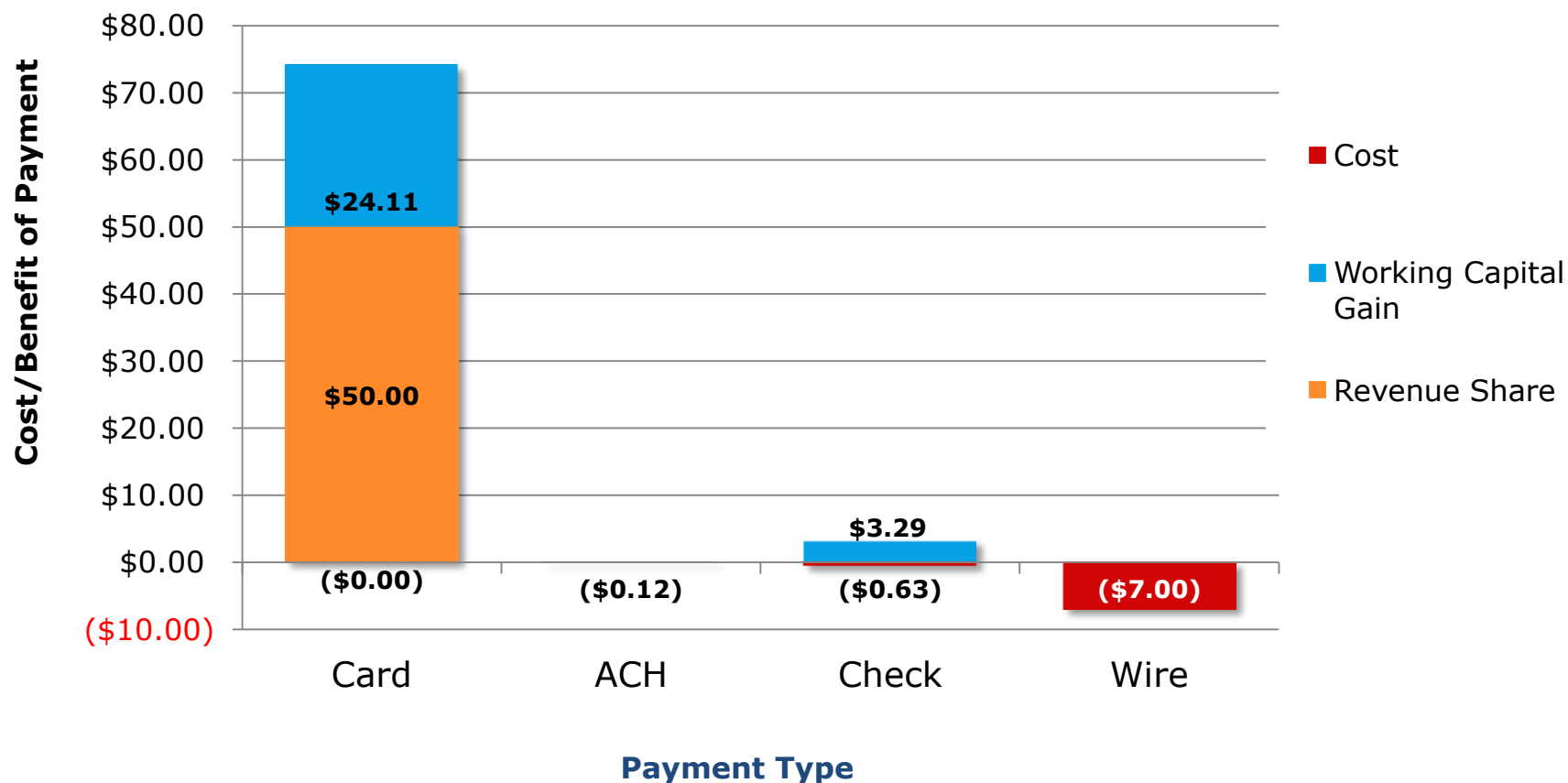
Source: REL 2013 US Working Capital Survey

Payment Methods and DPO



Payment Economics

Based on Average \$5,000 Transaction



*Revenue Share based on rebate of 100 bps. Working Capital Benefit based on 8% Cost of Capital @ 22 days (card) & 3 days (check)

Case Study



WS Packaging Group, Inc.[®]

Leaders in Printing and Packaging Worldwide

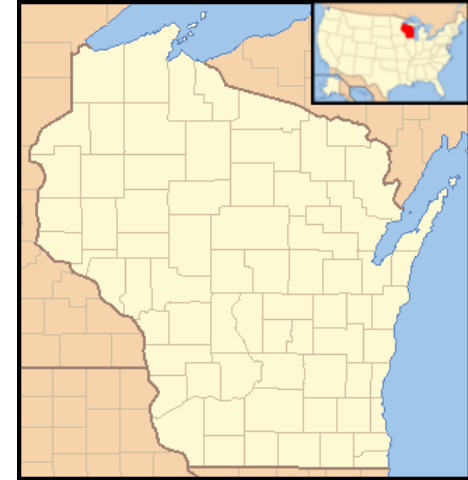
This case study will discuss how one company quickly ramped up their virtual card program to generate a working capital reduction of \$30 million and extend their average Days Payable Outstanding to 88 days within one year.



WS Packaging Group, Inc.®

Leaders in Printing and Packaging Worldwide

- Headquartered in Green Bay, Wisconsin
- \$450+ million in sales
- 22 facilities across the U.S. and in Mexico
- 45 years of industry leadership
- 2,000 employees
- Industry leader in prime label products





WS Packaging Group, Inc.[®]

Leaders in Printing and Packaging Worldwide

WS Packaging Group provides solutions to a broad range of markets and industries

Food

Beverage

Wine

Spirits

Household

Personal Care

Promotional

Industrial

Medical

Games and Sweepstakes

Nutraceuticals





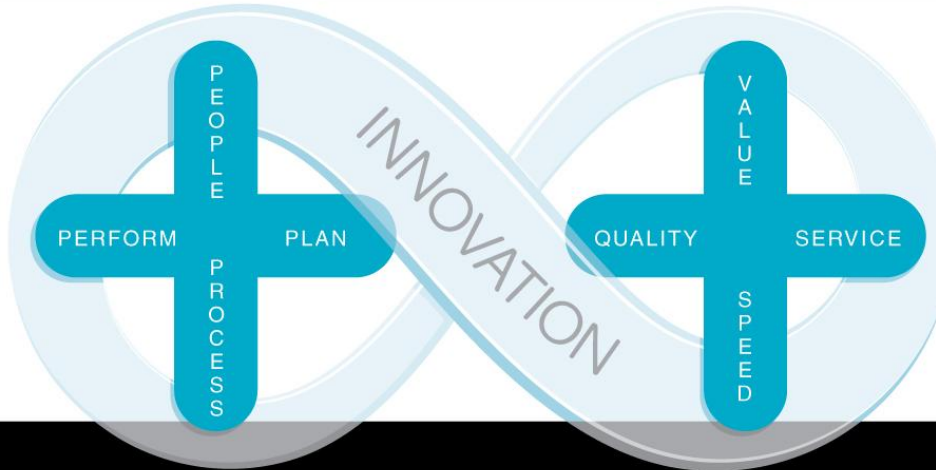
WS Packaging Group, Inc.®

Leaders in Printing and Packaging Worldwide

Our IMPACT™ Business System is our business approach that seeks, demonstrates, and applies innovative change that positively impacts our customers, company, and employees



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Strategic Planning • Policy Deployment • Kaizen for Impact • Action Plans • Innovative Solutions for our Customers • Sales Methodology (Sandler) • 6S Visual Management • IBO - Impact Business Office
 One Piece Flow • Organizational Growth • Pull / Kanban • Transactional Process Improvements (TPI) • Variability Reduction (VRK) • Six Sigma • Customer Performance Report Card • Set-up Reduction (SMED)
 Shareholder Confidence • Environmental Health and Safety (EHS) • Team Growth and Security • Shelf Impact • Shareholder Value • Root Cause Countermeasures • Inventory Management • Talent Management
 Total Productive Maintenance (TPM) • Environmental Sustainability • Problem-Solving Process • Standard Work • Production Preparation Planning (3P) • Innovation - Commercialization - Execution (ICE)

Kaizen Event - Goals

MISSION:

Achieve high IMPACT by moving large suppliers to payment of invoices with a virtual card

SCOPE:

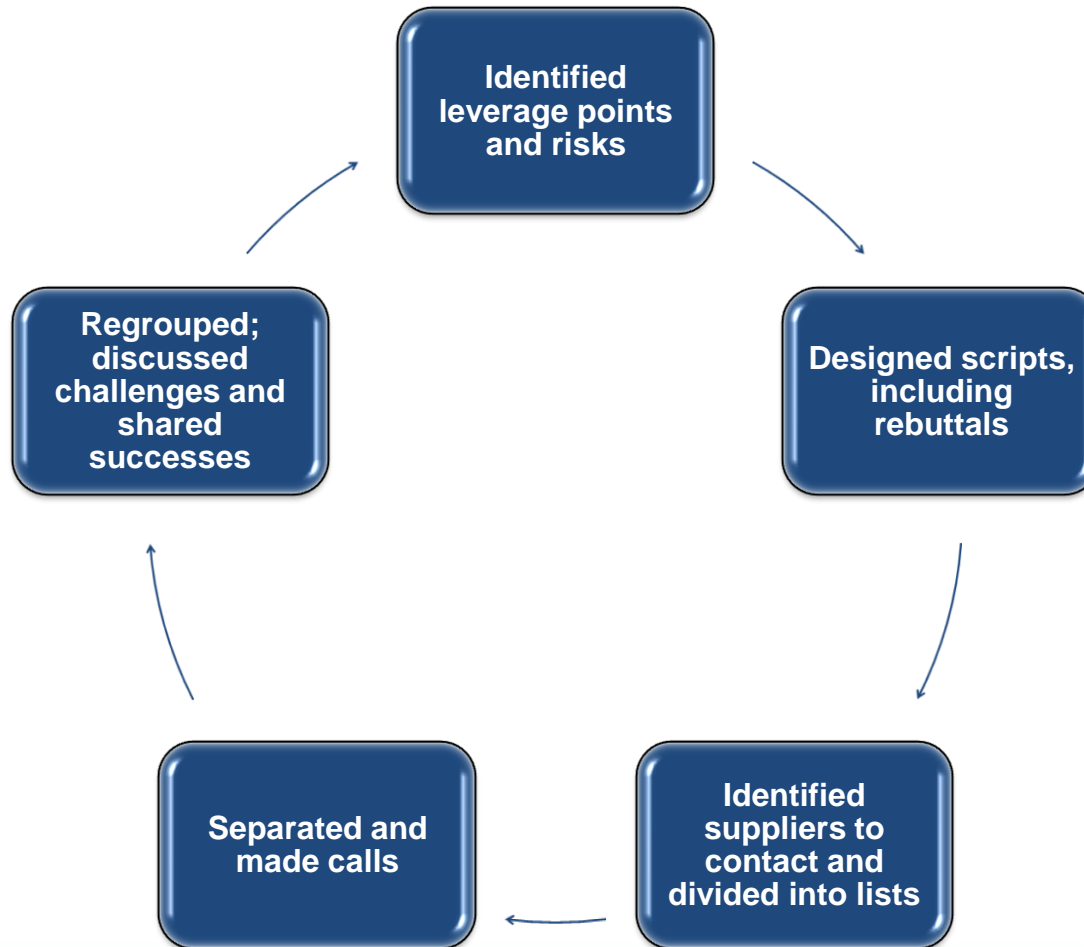
All suppliers – starting with Tier 1 suppliers and working down

EXPECTED BENEFITS:

Reduce working capital, increase DPO (Days Payable Outstanding), and generate revenue via credit card rebates

METRIC	PRE-KAIZEN (JOP)	KAIZEN TARGET	LONG TERM GOAL	TARGET % IMPROVEMENT
DPO – PAYMENT PLUS SUPPLIERS	36	65	69	92%
ANNUAL \$ REBATE FROM CREDIT CARD SPEND	\$213,000	\$350,000	\$800,000	276%
ANNUALIZED P-CARD SPEND	\$20,302,000	\$35,000,000	\$80,000,000	294%
# OF SUPPLIERS ON PAYMENT PLUS	40	65	100	150%

Kaizen Event - Activities



Suppliers Negotiations – Use a Model

Factor in cost of borrowing

Consider trading early pay discounts

Determine what's important to your Company

- Increasing Cash Flow
- Increasing EBITDA
- Reducing Working Capital
- Shareholder Value
- Other???

Monthly Average A/P Spend with Supplier	500,000	
Interest Savings due to Lowered Borrowing Base	8.00%	Enter the WACC here
Revenue Share Percent (consider % if large ticket)	1.0000%	Enter the bank's rebate or revenue share percent here
Bank's File Turn Days	22	Average number of days a transaction sits in the cycle plus number of days to pay the bank
Average Net Days to Pay Supplier with V-Card	30	This is used to calculate the discount needed in order to be better than the V-Card
Average Days to Pay Supplier when Early Pay Discount is Taken	10	This is used to calculate the discount needed in order to be better than the V-Card
Discount needs to be at least this in order to be better than the V-Card	1.92%	

	Current Terms	Option 1	Option 2	Option 3	Option 4
V-Card? "Yes" or "No"	No	Yes	Yes	Yes	Yes
Early Pay Discount Percent	2%	2%	1%	0%	0%
Discount Days	10	10	10	10	10
Supplier Rebate Percent, if applicable	0.0%	0.0%	0.0%	2.0%	2.0%
Net Days	30	30	30	10	30
Average Supplier DPO (from day of receipt, not invoice)	10	10	10	10	30
V-Card Bank DPO	-	22	22	22	22
	10	32	32	32	52
A/P Balance at check run	164,383.56	526,027	526,027	526,027	854,795
Working Capital Reduction	-	361,644	361,644	361,644	690,411
Interest Savings due to Lowered Borrowing Base	-	28,932	28,932	28,932	55,233
Annual Early Pay Discounts Earned based on Annual Spend	120,000	120,000	60,000	-	-
Annual Supplier Rebate Earned	-	-	-	120,000	120,000
Annual Revenue Share Earned	-	60,000	60,000	60,000	60,000
Effect on Cash Flow	120,000	208,932	148,932	208,932	235,233
Effect on EBITDA	120,000	180,000	120,000	180,000	180,000
EBITDA multiple	5.00	5.00	5.00	5.00	5.00
Effect on Shareholder Value	600,000	900,000	600,000	900,000	900,000
Working Capital Reduction plus/minus Effect on Shareholder Value	600,000	1,261,644	961,644	1,261,644	1,590,411
Increase (Decrease) from Current Terms	-	661,644	361,644	661,644	990,411
Ranking	5	2	4	2	1

Kaizen Event – Results

- **DPO (Days Payable Outstanding)**
 - GOAL = 65 days
 - FINAL RESULT = **71 days**
- **# of Suppliers on Virtual Card**
 - GOAL = 65
 - FINAL RESULT = **79 suppliers**
- **Annual P-Card Spend**
 - GOAL = \$50,000,000
 - FINAL RESULT = **\$74,600,000**

Kaizen Event - Lessons Learned

What worked?

- Team dynamics allowed for knowledge exchange between Purchasing and Finance/Accounting to make conversations easier.
- Know (or find out) what's important to the supplier – you might be surprised!
- Assign the right team member to right supplier.
- Adapt the script to the audience during initial calls. Get others involved in negotiations if needed.
- Continually tweak the process, approach, and style based on lessons learned.
- Stay committed to the goal.

What didn't?

- Getting immediate access to a decision maker during the initial call – follow up emails, phone calls, VM purgatory.
- Lack of direct relationship with each supplier (failure to always understand leverage points).

Ongoing Efforts

**Work
doesn't
stop
once the
Kaizen
Event is
over.**

- Establish metrics
 - **# of suppliers enrolled weekly**
 - **Spend enrolled weekly**
- Weekly metrics in the beginning help to keep the team focused
- Clearly display progress and share results throughout the organization

Ongoing Efforts

**Work
closely
with the
Purchasing
Department**

- Train A/P Clerks and Buyers on the program and how to sell it
- Incorporate payment with a virtual card into terms and Supplier contracts
- Communicate to Suppliers that virtual card is the preferred method of payment

Ongoing Efforts

**Keep things
in
perspective;
most
Suppliers
are not an
easy sell**

- Agree internally on what you're willing to negotiate (forfeiture of early pay discounts, price increase, shorter terms)
- Remember to use the model – this helps to make the conversion a win-win
- Be available to have conversations with the Supplier's finance team – they understand the economics
- Utilize the card provider's Supplier Enrollment Services to tackle the mid to small Suppliers

And Most of All...

**Stay
focused
on the
goal and
be
persistent**

- Support has to come from the “top”
- Educate yourself on what the merchant experiences – there are fees involved; you should know how this works
- Be prepared to provide merchant provider references and to offer tips to the Supplier on how to lower their merchant fees. The Supplier will respect you for acknowledging their “pain” and working with them.

Selecting a Bank/Card Provider

Vendor Analysis

- Most Providers will review your Supplier list to identify Suppliers known to accept credit cards – this gives you an idea of the potential size of your program

Vendor Enrollment

- If this is important to you, make sure you understand what the Provider will and will not do for you. Is enrollment a one time exercise at program implementation or is it ongoing? Is the enrollment team internal to the Provider's organization or outsourced?

Revenue Share

- The Provider earns revenue on the card transactions processed, and they will share a portion of this with you. It's sometimes called a rebate. This can be a flat percentage, a tiered approach based on volume, or a grid based on volume and average transaction size. Determine a meaningful way to compare what different Providers have to offer.

Payment Terms

- Understand when you will be required to pay the Provider; there are many different programs on the market. Often the longer the term to pay, the lower the revenue share and vice versa. Know what's important to your Organization when weighing options.

Where Are We Today

About 400
Suppliers are
paid via Virtual
Card

An average of 3
Suppliers per week
are enrolled in the
program

About \$180,000,000
flows through our
program annually,
which amounts to
about 75% of our
spend

Thank You!

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