BANK OF AMERICA

Accounts Payable Optimization:

Using data to optimize working capital and deepen supplier relationships

Global B2B payment flows are immense and growing. In 2017, companies made $2.5 trillion in B2B payments via card, check, ACH and wire.[1] Yet most businesses continue to use old, paper-based processes that severely impede accounts payable. Nearly 70% of CFOs consider the AP process to be costly and inefficient,[2] which is what we hear every day from clients who haven't yet adopted the latest approaches. That's why we're helping businesses streamline accounts payable with new data-driven solutions.

Optimizing supplier payments

From startups to multinationals, all companies generate significant amounts of supplier payment data, including payment amounts, volumes, frequency and more. But given AP's labor-intensive demands — opening invoices, stuffing envelopes, entering data — most teams don't have the time to mine this data for insights that can make things better. This can be a major missed opportunity to generate more cash flow, improve Days Payable Outstanding (DPO) and boost other working capital metrics.

To eliminate the heavy lifting for our clients, Bank of America recently launched our AP Optimization solution. Our analytics team can look holistically at *every single supplier* in a client's supply chain — regardless of how they typically get paid today — and recommend whether commercial card, virtual card, ACH or supply chain finance (SCF) is the best way to pay them. Our experts can also quantify how much clients can gain — potentially millions of dollars — by optimizing their payments mix across these types.

Optimizing the payment mix

Achieving the right balance of payment types starts by recognizing that not all payment types are alike, and not all vendors are alike. When we analyze a client's spend data, we first segment suppliers into strategic and non-strategic. Strategic suppliers can drive 90% of the dollar value but just 10% of the volume, and are typically the biggest working capital opportunity. Using SCF, it's possible to generate significant cash flow by extending payment terms while also helping suppliers get paid faster and lower their cost of capital.

> BofA's analytics team can quantify how much clients can gain by optimizing their payment mix among traditional card, virtual card, ACH and supply chain finance.

A comprehensive payment solution

Supply Chain Finance Strategic international and domestic suppliers

Virtual Payables Invoiced spend for U.S. and Canada

Purchasing card Non-invoiced spend/lower dollar

ACH and wire Direct debits/immediate payments

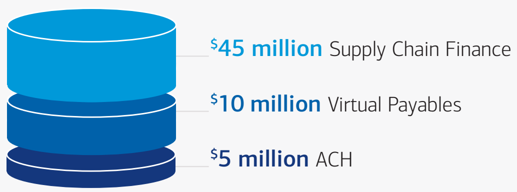
Typically, non-strategic suppliers tend to generate just 10% of the dollar value, but 90% of the payment volume. The best way to pay these vendors is usually virtual card if the spend threshold is greater than $25,000, and commercial card for less than $25,000 in spend. In both cases, switching these payments to card can increase processing efficiency and may generate buyer rebates. Automated Clearing House (ACH) can also be a good way to make smaller payments to non-strategic suppliers who don't accept card.

Two factors can make card optimization particularly rewarding. First, most buyers may not be aware that some of their current suppliers already accept card. This makes the change easy. Second, many of these suppliers are getting paid today via check, so they represent a major opportunity to improve P2E conversion.

All of these different payment methods share a common goal: helping buyers boost working capital by extending DPO.

Here's an example of the potential cash flow gains of shifting payment terms out by 30 days:

Potential cash flow opportunity



*Data is illustrative only.

One potential risk of offering all of these payment types is the need for separate staff, systems and processes for handling each of them. Smart planning — and choosing the right bank — can eliminate this risk. It's essential to bring all of these payment types together in a holistic toolkit through a single implementation that the entire AP team can see and use at once. We designed AP Optimization so that clients can send us one integrated file that covers card, ACH and SCF.

Rather than break out spend files for each payment type, our clients can simply send it all to us to sort out through our CashPro® treasury portal.

Driving change with a little help from your friends

Once the finance team knows the optimal way to pay each vendor, it's time for a project plan. The bank's supplier analysis can help secure leadership support for a payables overhaul, since it quantifies the financial benefits. After gaining executive buy-in, forming a cross-functional group across AP, procurement, treasury and IT can help the project launch quickly and run smoothly.

When it's time to engage clients, we recommend a phased approach starting with the greatest opportunity: higher-value suppliers who are eligible for SCF. Virtual and commercial card can follow, focusing on suppliers identified by the bank's analysis as already accepting card. The bank can help with reaching out to suppliers, providing education and overcoming any concerns.

Delivering results

Buyers can gain significant leverage using a data-driven approach. AP Optimization gives buyers numerous ways to pay their suppliers faster, which can significantly influence negotiations. Many of our clients pay card-enabled suppliers on the same day they receive the invoice, which is still cash flow-positive since they can maintain weeks of float before the card balance comes due.

Mutually beneficial supplier relationships are essential to every organization's financial health. It's our mission to give clients the power to collaborate and achieve shared success for the long haul.

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[1] Mercator, The U.S. Commercial Card Market, 2017.

[2] Institute of Financial management (IOFM) CPO/AP Research, 2016.