



SIM-Powered Recovery: Taking Capital Recovery to the Next Level

A White Paper by Sourcing Innovation
<http://blog.sourcinginnovation.com/>

March 2013

Sponsored by Lavante
<http://www.lavante.com/>

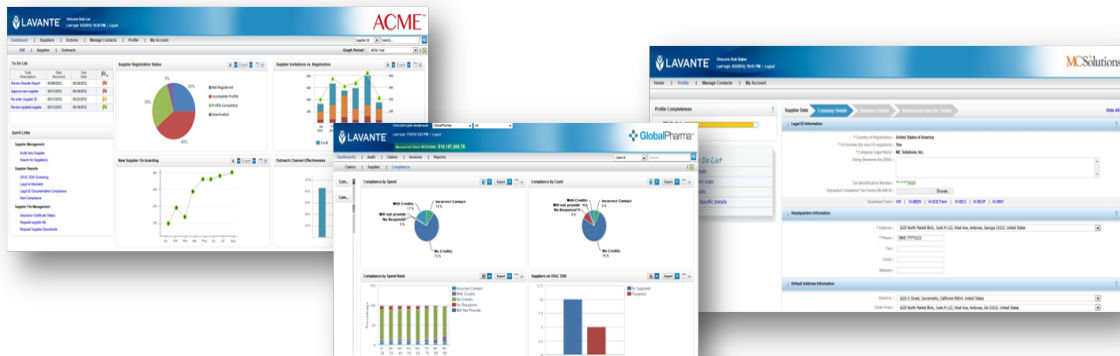


Table of Contents

Introduction	3
A Manual Recovery Audit is Inefficient	4
Time-consuming	4
Inconsistent (or Random).....	4
Low Return	4
Ineffective over the long term.....	5
Technology Changes the Game.....	5
Accurate.....	5
Complete.....	6
Fast	6
High Return	6
Delivers value over time	6
SIM Increases the value of Recovery Auditing.....	7
More Supplier Compliance	7
Out-recovers other recovery Methods	8
Better Working Capital Management	9
SIM Improves the Company’s Bottom Line	9
Improved Compliance and Information Management at a Lower Cost.....	9
New Supplier On-boarding.....	10
Strategic Sourcing and Supply Opportunity Identification	11
Master Data Cost Reduction	11
Fraud Reduction.....	11
Summary.....	13

Introduction

Every year, corporations are at risk of losing significant dollars due to transactional errors such as: over payments, duplicate payments, missed rebates, missed discounts, lost credits, and fraud. The money is lost with no chance to reclaim it unless a recovery audit is performed.

Most recovery audit service providers claim on their websites and marketing material that they can recovery between \$500,000 and \$1M per every \$1B that a company spends on an annual basis. Even under the most conservative estimates, this problem is costing mid-sized and large companies millions of dollars every year.

Unfortunately, the recovery audit industry relies heavily on manual processes which focus almost entirely on a client's historical transactional records. Manual processes are time-consuming, inconsistent, expensive, and focus too heavily on client records. The methodologies, while they do add value, leave a large portion of the recovery opportunity unexplored.

Over the last several years, some service providers have developed technology-enabled recovery processes that are accurate, complete and deliver claims in real-time. Even more recently, some recovery solutions have seen the incorporation of a supplier information management (SIM) application and have drastically improved audit results. The combination of recovery audit technology and SIM drives more supplier compliance, significantly out-recovers manual recovery methodologies and improves the organization's working capital situation as a result of the recovery process.

Even when delivered separately from any recovery product, SIM is a powerful tool that offers significant benefits to a financial organization by driving lower costs, streamlining supplier on-boarding, reducing working capital, improving strategic supplier management and decreasing payment fraud.

A Manual Recovery Audit is Inefficient

The manual recovery process generally consists of a team of auditors manually pouring over databases and filing cabinets full of invoices. These antiquated methodologies are generally time-consuming, inconsistent, low return and ineffective over the long term.

Time-consuming

A traditional audit will usually involve a team of reviewers who will spend weeks, and sometimes months, on site sifting through archived databases, filing cabinets and contracts trying to identify potential duplicate payments, overpayments, missed discounts or rebates and much more. Supporting such teams requires an outlay of office space, staff time and other resources.

In addition, by the time the audit is done, contracts will have expired, and additional time will have to be spent identifying which overpayments the company is going to pursue. This will not only result in difficult, after-the-fact negotiations as two or more quarters could have passed by the time recovery begins, but could also result in potential credits that are now lost permanently.

Inconsistent (or Random)

Due to the sheer intensity of the task and the volume of paperwork to be reviewed, it is an almost certainty that not all paperwork will be reviewed, or even found. On some instances when the audit team reaches out to the supplier population to request statements and other transaction data for review, the process is limited by the manual nature of the request as well as by the limited nature of the suppliers' contact data. There is very little consistency in how an audit team communicates with suppliers and results can vary widely from audit to audit.

Low Return

Manpower is not cheap, and neither are the gain-share or contingency arrangements most recovery audit firms entice the organization into once someone calculates the six-figure up-front cost that would be required to pay for the audit from a labor perspective. This arrangement also promotes a "low-hanging fruit" strategy in order to maximize margins for the auditor at the expense of the client.

Ineffective over the long term

Very few manual recovery audits provide value to an organization above and beyond the initial recovery; they have no incentive to. Once the audit team leaves, the organization will go back to making over payments, duplicate payments, and even fraudulent payments because no process improvement would have been made. The cycle, which sees ongoing errors and ongoing recovery, ensures future work for the recovery firm. It also minimizes the work required by the recovery firm on future engagements at the expense of the client organization as only the recovery firm will have insight on where the overpayments, duplicate payments, and fraudulent payments are likely to be found.

Technology Changes the Game

Technology completely changes the recovery audit process. The deployment of a platform that enables an automated technology-driven process improves working capital to a level that a manual recovery process cannot achieve. Unlike a manual recovery process, an automated technology-driven process is accurate, complete, fast, high-return, and continues to deliver value over time.

Accurate

A technology platform follows the business rules programmed into it exactly, without fail, as many times as is required. In addition, an automated approach to reviewing vendor statements enables a wider outreach to all companies throughout the supplier population without any prejudice to their size, or availability of email, postal address or phone/fax contact information. Reaching out to more suppliers means recovering more dollars.

Complete

Whereas it is an almost certainty that not all paperwork will be reviewed, or even found, in a manual recovery audit, a technology-enabled audit can process as much data as is thrown at it. As a result, if all transactions, supplier records, payments or any other desired input is entered into a system programmed with all of the proper rules, 100% of overpayments can be identified. In contrast, a typical manual process, which stops at the top 20% of suppliers, typically only identifies half of the opportunities available for recovery.

Fast

In comparison to the traditional manual process where the recovery process does not begin until months after the audit starts, an automated audit can immediately send a credit request notice, in real-time, to a supplier the second a duplicate or overpayment is detected, thus starting the recovery process instantly. And since a continuous technology-enabled recovery process can detect overpayments in real-time while a supplier is still under contract for the goods or services to which the overpayment is related, recovery rates can be much, much higher in the long run.

High Return

A manual audit, which will generally need to be conducted every eighteen to twenty-four months, will cost a large company an average of six figures each time it is undertaken. In comparison, a lifetime license to a modern technology-enabled platform that uses a flat-fee model can often be procured in the very low six figure range -- an amount that is typically less than the cost of a single audit! And while maintenance fees will be incurred in perpetuity, these costs will generally be low five figures and dwarfed by the continual value and savings that a system will produce. As a result, the returns from a SIM-enabled Recovery platform will often exceed 5X and approach 9X over time.

Delivers value over time

If a transactional error can be identified within days of it being made, a root cause analysis can be conducted, and the problem identified. If the overpayment was a result of a process error or programming error, then the process can be fixed and future overpayments of this type can be prevented. As a result, a technology-based recovery platform will deliver organizational value above and beyond what a manual recovery process ever could.

SIM Increases the value of Recovery Auditing

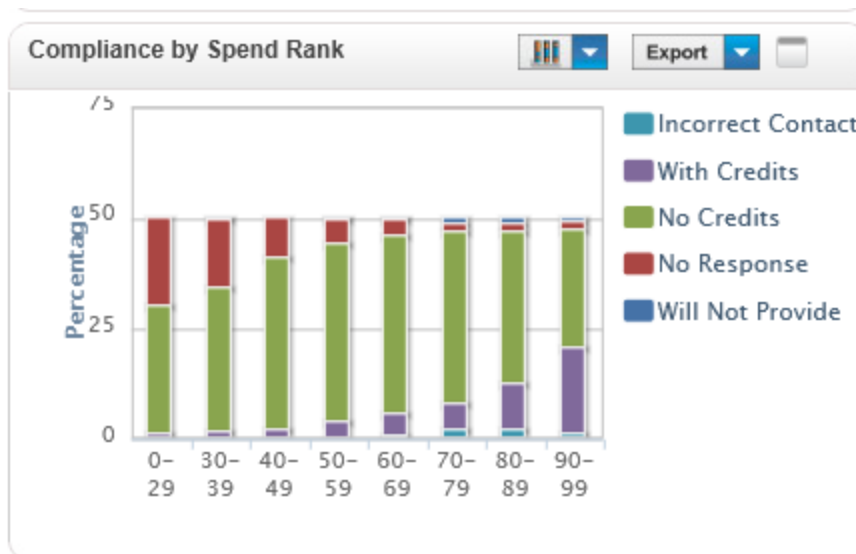
The combination of recovery audit technology and SIM drives more supplier compliance and significantly out-recovers the more antiquated manual methodologies.

More Supplier Compliance

Recovery audit reviews are limited by the amount of data included in the review. Traditional recovery audits focus only on client records with only a cursory glance at supplier records. Supplier records are not avoided because there is not an opportunity for recovery; they are avoided because the effort to communicate with a massive population of suppliers is too time consuming for auditors and because the supplier contact data populating the master vendor file of most companies is incomplete, inaccurate or out of date.

By leveraging a SIM application, a recovery auditor can update and re-populate the contact data associated with a huge percentage of a supplier population. By engaging an automated methodology for reaching out to all of those suppliers with the newly updated records, the auditor has multiplied their chances of collecting Account Receivable (AR) statements from suppliers containing relevant transactional data.

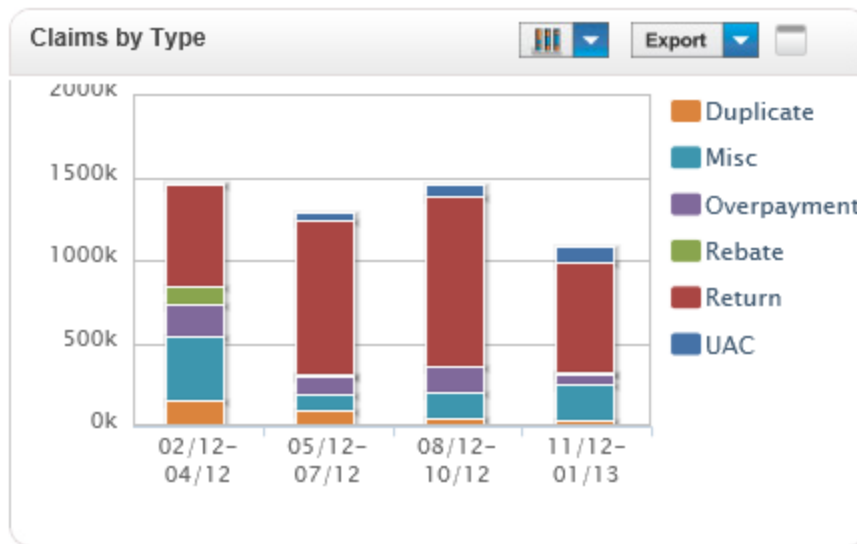
A good SIM-based Recovery platform allows a user to quickly determine what suppliers the organization (still) needs contact information for and those suppliers that have not responded to (compliance) requests. This is in addition to the quick identification of suppliers that owe the organization credits. This capability may be dashboard-driven, as per the following image.



Out-recovers other recovery Methods

By virtue of collecting a massive volume of AR statements that were otherwise uncollectible without a SIM application, a recovery audit firm can dive into a far greater population of potential credits and claims.

For example, a SIM-based recovery application will classify credits by type – such as duplicate, overpayment, rebate, return, unapplied cash (UAC), and miscellaneous/other – and typically provide a graphical user interface that illustrates the relative proportion of such credits and allows the user to drill into the types of credit due to the organization by clicking on the appropriate portion of the chart.



Unlike traditional audits that are frequently limited to email or fax-based supplier outreach, because the human team can't manage more than one channel efficiently, a modern SIM-powered recovery solution can seamlessly combine email, fax, and even postal mail outreaches in a single interface resulting in much better success in connecting with suppliers.

Better Working Capital Management

Working capital management is greatly improved as the near real-time identification of overpayments and rebates due to the organization, which enables faster collection, results in less cash outstanding. This frees up more capital for strategic early payments (to capture discounts) or supplier investments (to reduce long-term cost or risk). Plus, the ability of SIM to track a claim until the credit is applied by a supplier means that an identified credit is never lost or forgotten and can be pursued aggressively until collected.

When one considers that the average Global 1000 company has an average of \$900 Million of excess working capital, which is unnecessarily tied up in inventory and assets, as per recent research by The Hackett Group¹, every advantage helps.

SIM Improves the Company's Bottom Line

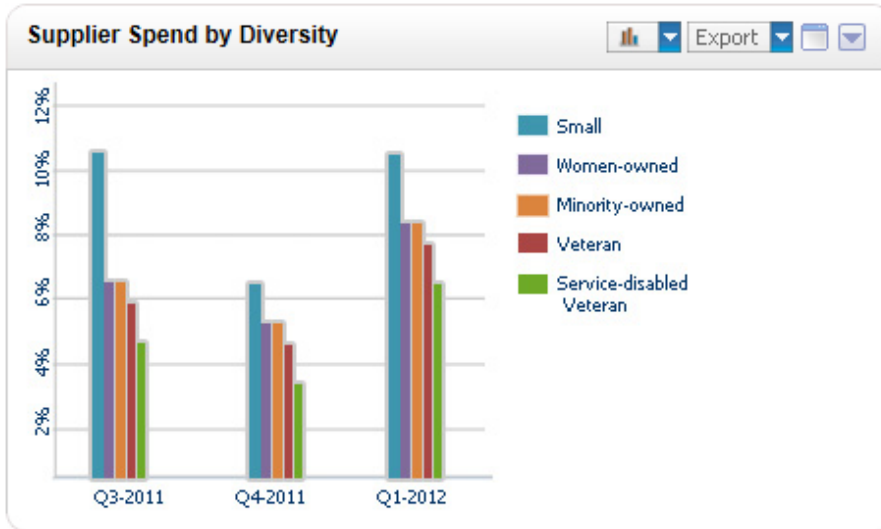
SIM provides benefits that provide the organization with value beyond the recovery process. In addition to reducing the manpower required for the tactical task of supplier information management (since it enables suppliers to maintain their own data), which frees up resources to focus on relationship management and strategic opportunities, the centralized data store with all relevant supplier data enables an organization to undertake significant compliance and risk management initiatives with minimal incremental effort.

Improved Compliance and Information Management at a Lower Cost

Due to the constant updating of supplier data, an automated SIM product communicates more effectively with suppliers and consistently drives higher ongoing supplier compliance with a long list of projects. For example, it is trivial to run a report to see which service suppliers haven't provided updated insurance certificates and then send them an e-mail or fax. Such suppliers can also be automatically notified in the future when a certificate on file is about to expire. Similarly, IRS Tax Identification Number (TIN) validation or anti-money laundering screening (OFAC SDN) can be automated so that they are monitored continuously for regulatory compliance.

In addition to the hundreds of thousands of dollars that are saved in manual data management, tens of thousands of dollars are also saved in the automatic generation of reports that would otherwise take weeks of manpower to pull together. For example, SIM can automate the process of preparing a report on supplier spend by diversity to track compliance requirements.

¹ 14th Annual Working Capital Survey from REL Consulting, a division of the Hackett Group.



New Supplier On-boarding

SIM allows the automation of new supplier on-boarding processes so that not only is all relevant supplier information collected, assessed, and approved prior to conducting any business transactions, but this information is also maintained continuously. This allows global standardization and control of supplier management processes with the necessary capability to act locally, which results in lower risk and increased regulatory compliance.

In addition, it is simple to determine the status of each supplier in an on-boarding process in a good SIM-based recovery solution. It's just a matter of querying the current status of each supplier. The result will be a report similar to the following which shows each supplier, the onboarding stage, and the main contact.

Search

Supplier ID:

Supplier Name:

Supplier Group:

Spend Rank: From: To:

Contact Name:

Country:

State:

Inviting Organization:

Stage:

Rows per Page:

Search Results (1037)

Filter By: All New Suppliers Requiring Approval Missing Supplier ID

<input checked="" type="checkbox"/>	Supplier ID	Supplier Name	Contact Name	Contact Phone	Contact Email	Spend Rank	Stage	Private Notes
<input checked="" type="checkbox"/>	ACM-002	Smart Technology	Steve Mills	800-777-1000	Steve.Mills@smartTech...	96	Needs Outreach	(2)
<input checked="" type="checkbox"/>	ACM-100	LP Systems	Lawrence Pascual	800-555-1210	Lawrence.Pascual@LPS...	92	Registered	(1)
<input checked="" type="checkbox"/>	ACM-101	Trujillo & Sons	Mark Trujillo	866-555-1101	Mark.Trujillo@Trujillo.net	87	Account Created	(2)
<input checked="" type="checkbox"/>	ACM-102	Ancient Geek	Jason Welshonse	866-555-1102	Jason.Welshonse@Ancl...	83	Profile Comple...	(2)
<input checked="" type="checkbox"/>	ACM-103	Global Corporation	Kobe Bryant	866-555-1103	Kobe.Bryant@GlobalCor...	79	Profile Incompl...	(2)
<input checked="" type="checkbox"/>	ACM-104	United Airlines	Tiger Woods	866-555-1104	Tiger.Woods@unitedAairl...	74	Deactivated	(2)
<input checked="" type="checkbox"/>	ACM-105	Office Depot	Andre Torres	866-555-1105	Andre.Torres@officeDep...	70	Profile Comple...	(2)
<input checked="" type="checkbox"/>	ACM-106	Home Depot	Buster Posey	866-555-1106	Buster.Posey@homeDe...	66	Invited	(2)
<input checked="" type="checkbox"/>	ACM-107	Staples	John smith	866-555-1106	John.smith@staples.com	63	Invited	(2)
<input checked="" type="checkbox"/>	ACM-108	Aramex	Robert Henry	800-232-1232	Robert.H@aramex.com	60	Pre-Registered	(2)

Go to 1 of 104 page(s)

|

Strategic Sourcing and Supply Opportunity Identification

Some strategic opportunities for supplier leverage can be easily identified without spend analysis since such a system can be configured to track and identify the current top suppliers and automatically report those not under contract. In addition, reports can be generated to identify which top suppliers could provide the categories not under contract, which could allow the organization to leverage discounts on an existing contract immediately. This allows an organization to immediately pursue low-hanging fruit opportunities, which can be substantial. A two year independent assessment of institutional procurement maturity undertaken by Southern Universities Purchasing Consortium identified one-off quick win savings to be in the 5% range in a developing Procurement organization. Wow!

In addition, a good SIM system will allow spend analysis efforts to focus on the identification of deeper, non-obvious opportunities. This allows the organization to make the best use of its analysts.

Master Data Cost Reduction

The cost savings associated with

- a) allowing suppliers to manage their own data,
- b) automatically detecting missing or duplicate data, and
- c) automatically validating such data at regular intervals,

are all capabilities provided by a good SIM application, and should not be underestimated. In August of 2009, Yuwei Zhao submitted his Master's Thesis to Uppsala University on the "Cost Connected to Master Data". In this thesis, he estimated the maintenance cost for a Master Data record in SAP at Ericsson AB to be approximately \$3 per quarter and the total cost including the storage, maintenance, and R&D expenses to be \$1.3 million per quarter for approximately 450,000 records. Ouch!

Fraud Reduction

SIM is a great tool for reducing e-procurement and e-payment frauds, which are becoming a massive problem as more people try to game a system that can be used to transfer money quicker, easier, and, if not careful, with less transparency, as there is no physical paper trail. When one considers that the most common types of e-procurement and e-payment fraud occur as a result of fake data, a lack of control, and collusion, one can immediately see how different types of fraud will be prevented with a SIM-enabled recovery platform.

First, since all data is centralized in a controlled location, the control issue quickly becomes moot as controls can be put in place to prevent unverified data from entering the system.

Additionally, since rules can be put in place to force the verification of all data by a second, or third party, it becomes almost impossible for an average user to commit fraud without collusion between multiple parties. The days of creating a fake company record, submitting a fake invoice, and collecting a wire transfer with little effort are over. For example, direct, real time validation of postal address will prevent fraud by eliminating fictitious postal addresses, or by highlighting the postal address match with an employee address.

This capability is very important as procurement fraud is on the rise and is very costly. Just ask Sainsbury. It was overcharged to the tune of 8.7 Million pounds by a supplier who was bribing a Sainsbury buyer with thousands of pounds in cash². Or ask the UK government, who believe that procurement fraud is costing the U.K. public sector 2.4 Billion Euros a year!³

² Potato Procurement Fraud Scam Cost Sainsbury's Millions, Procurement Leaders, May 16, 2012; <http://www.procurementleaders.com/news/news/potato-procurement-fraud-scam-cost-sainsburys-millions>

³ Procurement Fraud: A Costly White Collar Crime on the Rise, eSourcing Forum, February 2, 2011; <http://www.esourcingforum.com/archives/2011/02/02/procurement-fraud-a-costly-white-collar-crime-on-the-rise/>

Summary

It's clear that not only does a SIM-enabled recovery platform significantly increase the dollars recovered by an organization when compared to a manual audit, but it also (perhaps even more significantly) delivers additional value in the form of increased compliance, improved working capital management, better supplier on-boarding and supplier opportunity detection, and fraud avoidance – capabilities not offered in most financial platforms.

Thus, any large organization that wants to make sure that (over) spending is kept to a minimum should investigate a SIM-based recovery platform today. Based on an average total cost of ownership, a Global 3000 company, which typically has a multi-million recovery opportunity, should expect an ROI in the 5X to 9X range over the long term due to the low cost of the technology platforms which offer flat-fee models. Compare this to the 3X ROI that typically exists in a contingency-based manual recovery audit process where the firm takes 20-25% of all monies recovered and one quickly sees the value. By using a SIM-enabled recovery program, a company will gain critical financial and strategic advantages.

About Lavante

Lavante is a global leader in on-demand supplier management solutions, including recovery audit and supplier information management applications. Built with advanced, patented-pending technology, Lavante delivers to the financial arena a new standard in efficient technology-driven solutions that allow companies to quickly drive dollars to the bottom line, improve supplier communications, and assure high supplier data quality. Lavante solutions are deployed across Fortune 1000 enterprises in the hospitality, retail, entertainment, manufacturing and medical industries. Headquartered in San Jose, California, Lavante is privately held and was founded in 2001. For more information please visit www.lavante.com.

About Sourcing Innovation

Sourcing Innovation, which started in June of 2006, is a leading resource for sourcing, procurement, and supply management professionals who are interested in improving themselves and the overall performance of their supply management organizations. Sourcing Innovation is education about, and in-depth analysis of, technologies and approaches that can have a profound impact on the way an organization conducts business. More information about Sourcing Innovation can be found on the blog itself, at <http://blog.sourcinginnovation.com/>.