

Reducing costs through improved STP

Improving straight through processing is a critical element of any procure-to-pay project and is a key concern for corporates looking to enhance internal efficiencies in turbulent market conditions.

In the current market conditions – when many companies are looking to reduce costs and build their cash reserves wherever possible – many are looking to projects that improve straight through processing (STP) within the procure-to-pay cycle. Even if it is a small project, just one piece of the procure-to-pay process that is being enhanced, significant efficiency gains and cost reductions can be achieved.

What is STP?

Straight through processing involves the flow of a transaction or piece of data through one or various systems from origination to completion without any interaction from the outside during the process. From a corporate treasury perspective, this is a critical aspect of the procure-to-pay cycle, and is becoming more so as technology enables greater automation throughout the process.

The benefits of improving STP are manifold:

- First, increasing STP creates more streamlined practices and speeds up the processing time for any payable/receivable item – depending on where the STP enhancements are made.
- Second, it can mean a reduction in the number of people involved in the process. This is a two-fold benefit: it may allow a headcount reduction as fewer people are needed for data entry/data management. It also means there are fewer people touching that data as it goes through the process and thus fewer chances for human error.
- Third, STP can lead to better decision-making around the procure-to-pay process as information can be better gleaned at different points along the way that can then be used for improved interaction with suppliers, banks, and other third parties. As a classic example, by analysing how long it takes for an invoice to go from being received from a supplier to when it is paid, it is possible to find where there are discrepancies and improve that process to ensure that invoices are paid within agreed payment periods. This information can then be used to get agreed-upon discounts, negotiate better discounts or change payment terms with suppliers.
- In addition, on the bank side, some bank tenders have included STP rates as a discussion point in relation to pricing. If the quality and reliability of payment information is high enough that the bank has few, if any, direct contact points with it – thus reducing the amount of time or resources they must spend on that payment processing – then this can be used as a talking point to bring down pricing. However, this can be a two-edged conversation, leading to additional charges if the input from the company is poor.
- Finally, by streamlining the flow and closing gaps in the process, STP can help ensure that data is flowing based on pre-approved rules, rather than having various points at which it is checked for accuracy or adherence to set rules.

Basic principles for improving STP rates

One of the most important aspects of improving STP in a particular process is having a very controlled environment in relation to master data. Payment and vendor or bank master data need to be controlled and maintained by people who really know the information, and access points must be managed by those few people.

Once that master data is well controlled, it is important to look at transactional data and any areas where information is lacking or where there are problem points in the data. Also, it is essential to work on the approval process as early as possible. This is possibly the most important element in the successful process re-engineering of procure-to-pay – looking at how early in the process that data can start to be approved. For example, in streamlining the approval process in Accounts Payable (AP), you can start with approval of the purchase order, then link that to goods received and invoice verification.

It is also critical to define an approved item and then ensure that rules are set up for that approval process. In the past the approval process was generally quite manual, but with new technology it is increasingly possible to integrate pieces of the approval process into the automated data flow, rather than requiring approval checks externally. Many systems now allow a user to set up vetting points – using workflows to ensure quality of data and data validation – for approving master data and transactional data. This can provide a huge improvement in transactional flow and greatly reduce the likelihood of transaction rejections from banks. The use of automated approvals before data reaches the bank is not yet a standard offering from providers but it is in discussion. Some large corporates are working on it with their banks but as yet it is far from a standard offering in the average ERP.

On a broader scale, improving STP in existing data flow is a stepping stone for larger working capital management projects and can be a critical first piece in process re-engineering. Corporates are working on many such larger-scale projects, such as implementing regional and global cash pools. From an STP perspective, instead of having local files sent off by each entity, companies are increasingly setting up one standard way of sending information within a new or existing cash pool, perhaps using XML-based messages.

ISO 20022

ISO 20022 messaging standards look set to further improve STP between corporates and their banking partners. ISO 20022 provides interoperable, XML-based messaging standards for banks, corporates, clearing houses, and other parties sharing financial messages. It cuts across the many standards that have been developed to provide one standard for all parties, and offers the promise of greater STP as entities that have struggled in the past with the need for diverse messaging formats for each counterparty can use a single standard message format for all counterparties. Take-up is currently slow, as with any new standard, but once a critical mass has been reached this could change the financial messaging landscape.

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For more information on ISO 20022, see the Cash Management article published in the June 2009 issue of Treasury Today.

Beyond cash pools, many companies are moving on to setting up in-house banks where cash is pooled internally with the in-house bank and then the internal bank decides what to do with it. Again, standardised communication and security are key to such a venture, and in the end the success of these projects relies on the streamlining of the purchasing process and the associated data flows.

The benefits

Even for those companies with few resources for such projects, the benefits of improving STP are clear and procure-to-pay projects are going ahead when many others are being postponed in the current economic climate. Most projects now are focused on getting cash into one place and using that cash more effectively. They are also looking at how to gather that information internally and how to interact with banks and vendors to obtain and use that information. It is essential to have control over the procure-to-pay process and standardise data flow throughout that process.

Improving STP is of enormous value to corporates, particularly in this financial environment as companies look for internal efficiency improvements to offset less-than-ideal market conditions.

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