WORKING CAPITAL OPTIMIZATION WITH PROCESS ANALYTICS

Part 2: Focus Accounts Payable

Düsseldorf, January 2025

With the right measures, significant WOC and efficiency potentials can be achieved

Extract of H&C project results

Focus of this whitepaper

Optimization of Accounts Receivables	Optimization of Accounts Payables	Optimization of Inventories
30% Reduction of **payment periods** & harmonization of payment terms	40% Increase of the **Accounts Payables** with the same purchase volume	35% **Reduction of anonymous inventories** with an increase in availability
90% Reduction of **lead time** between **delivery and invoicing**	99% Of the **cash discounts** are taken automatically	55% Reduction of **customer-specific inventories**
65% Reduction of **overdue invoices** and **delayed payments**	85% Increase of **payment periods** for small and medium suppliers	50% Increase of **on-time deliveries** & **automatic disposition**
Reduction of DSO by 20 - 30 % a)	Increase of DPO by 25 - 40 % a)	Reduction of DIO by 20 - 35 % a)

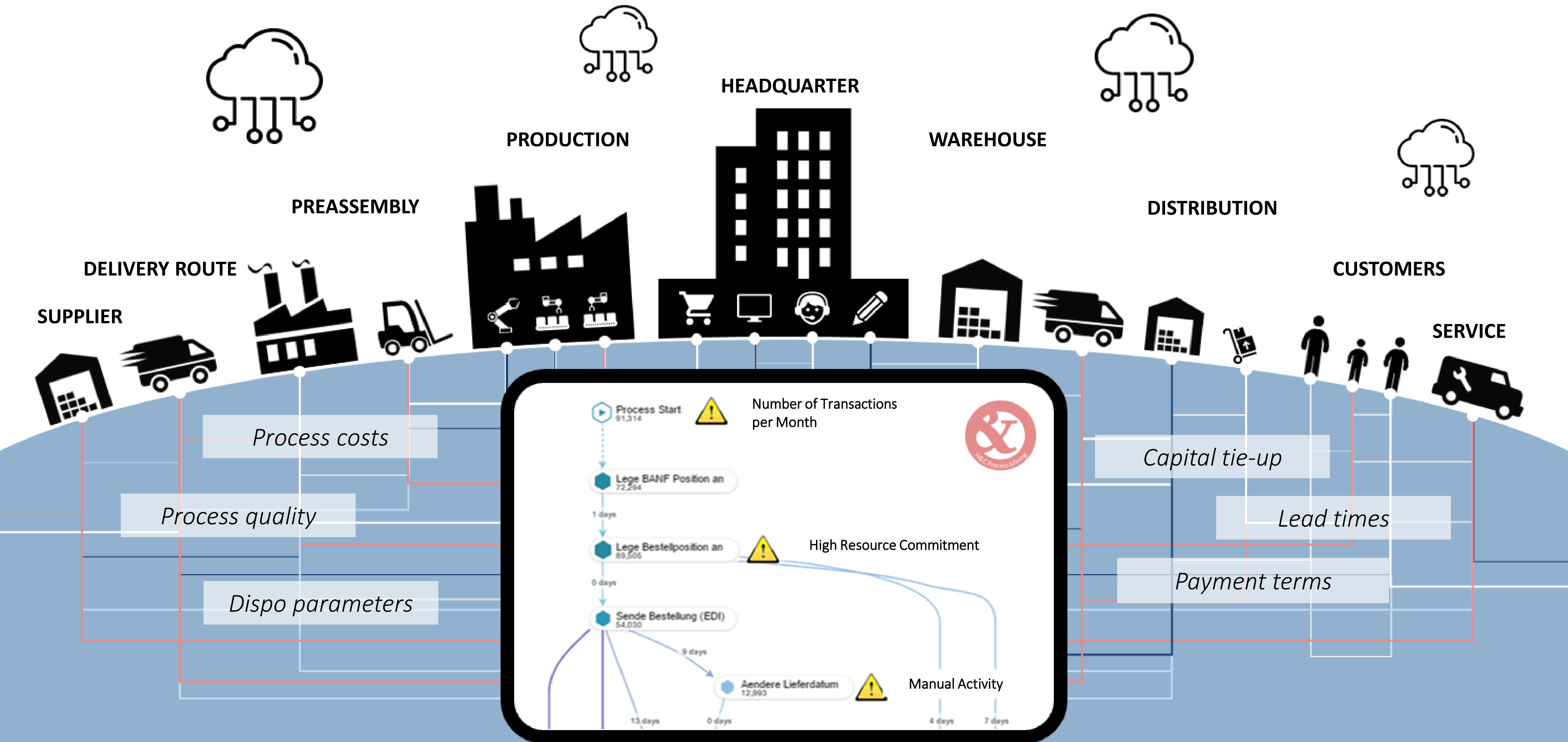
With the H&C approach for Working Capital optimization, high cash & efficiency effects can be achieved – in the short run as well as permanently through sustainable implementation

a) Depending on the maturity of the processes and the previous working capital focus

Content

We create data-driven transparency – End-to-End from customer to customer

As an "X-ray machine" H&C Process Analytics quickly identifies stock drivers along the entire process chain



Optimization through combination of process, financial & inventory data

Overview of the H&C approach

Financial Data

- Payment terms
- Payment behavior
- Quantitative simulations

At single invoice level

Process Analysis

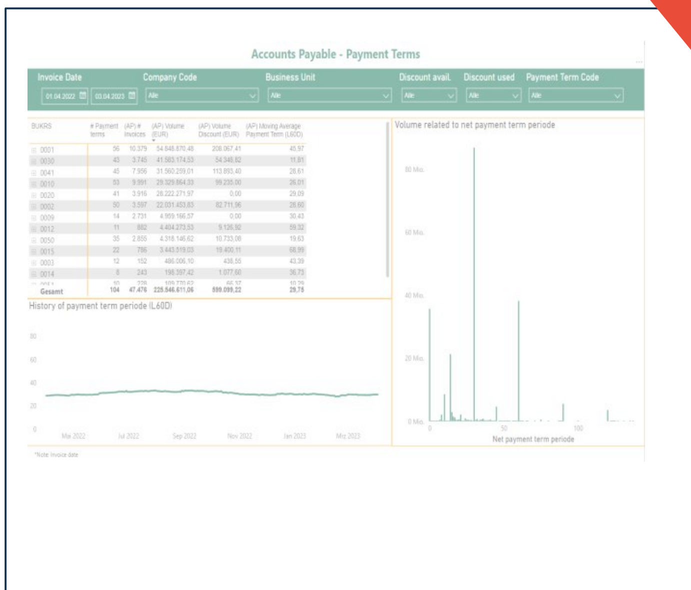
- Transparency over processes & behaviour
- Detection of bottlenecks and lost time
- Across all processes, e.g. OtC, PtP, …

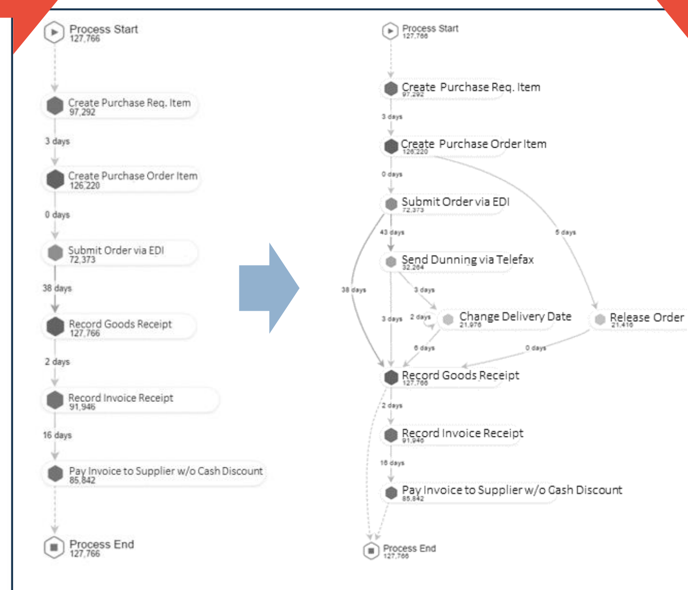
At purchasing/sales document level

Inventory Analysis

- ABC/XYZ classification
- Stock range and dead stock analyses
- Automatic identification of weaknesses

For every single material number

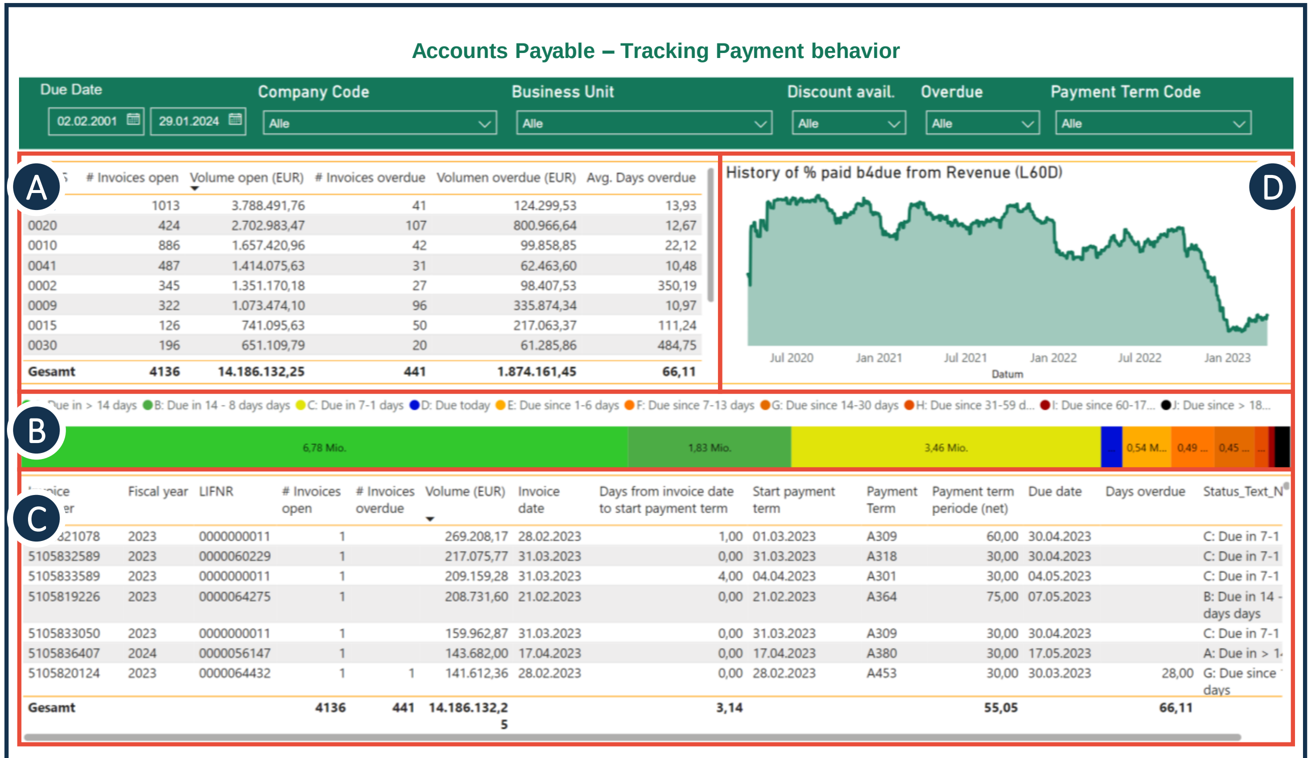




Powerful BI-dashboards for operational optimization as clear deliverable

Customized deep dives for specific customer situations

Customer Example



Tracking of payment behavior

- **A** Overview of the aging of payables by the different business units
- **B** Graphical representation of the proportion of overdue invoices (blue = due today; left of blue = due soon; right of blue = overdue).
- **C** All relevant information about a single invoice on invoice level. (Various dates such as creation date or due date, as well as information about the payment term).
- **D** Tracking of the percentage of payables paid before the due date in the last three months to illustrate the progress in optimization

Live-dashboard for managing the payment behavior and monitoring payment term development for a sustainable increase of Accounts Payable

From data-driven WOC analysis to evaluated & prioritized potentials

Project phases and results

0 Initiation (especially data provision)	1 Analysis & top-down potential identification	2 Measure definition and confirmation
Clear data requirements & extensive data foundation for analyses	*Quantified process anomalies, top-down potentials and fields of action*	*Measures and potentials, bottom-up confirmed improvement program*

Content

1.

The Horn & Company
approach for WOC optimization

2.

Typical project results & improvement
measures for Accounts Payable

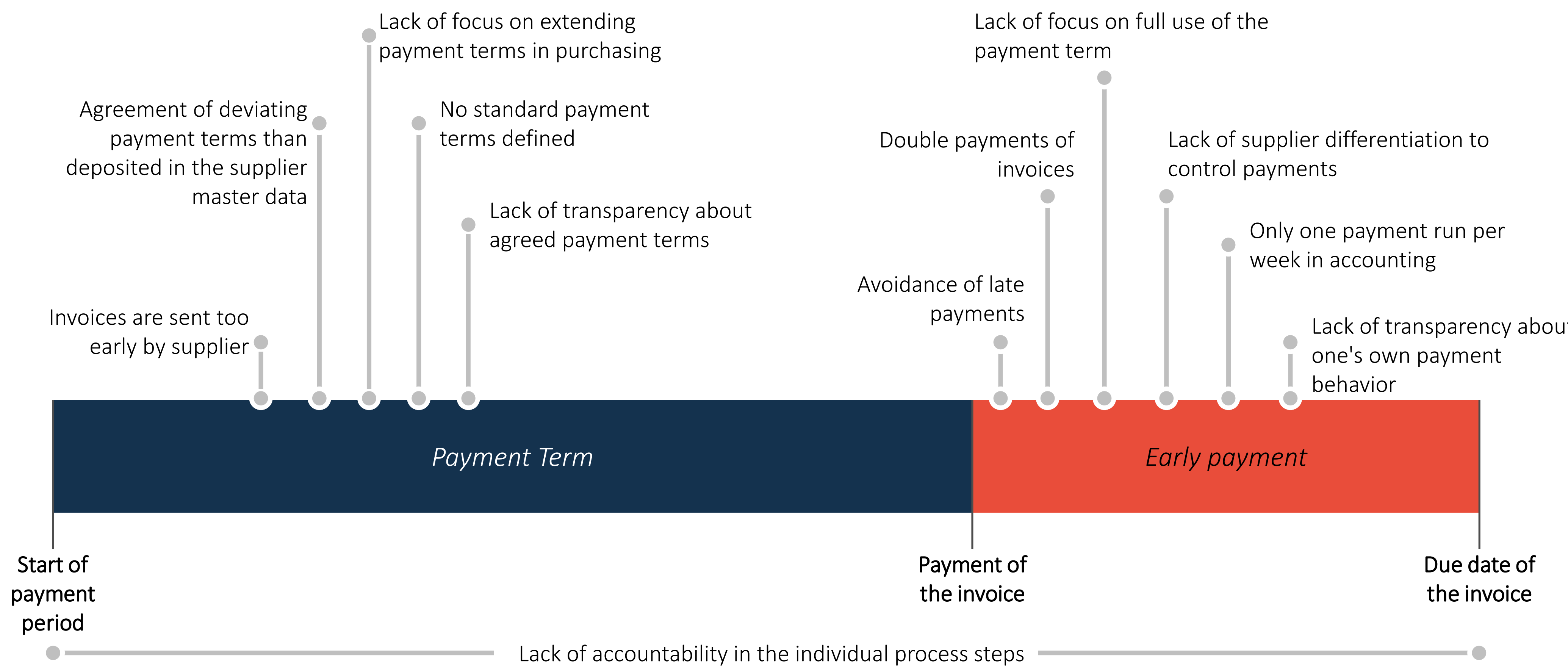
3.

Horn & Company profile

Low accounts payable are caused by a variety of process issues

DeepDive Phase 1: Typical process issues in AP

Accounts Payable



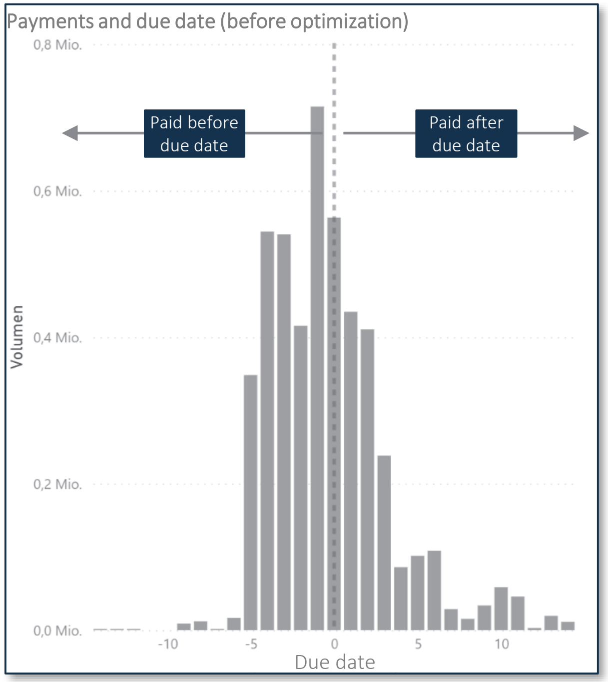
We have a proven set of levers from implemented projects to address the typical AP process issues

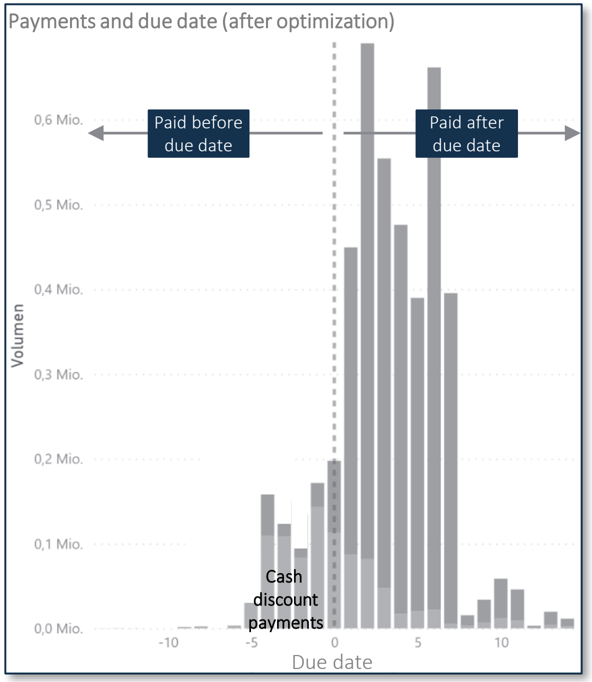
Prevention of early payments to suppliers

DeepDive Phase 1: Example analysis to optimize own payment behavior

Accounts Payable

EARLY PAYMENT | Own payments before or after due date





FINDINGS

52%

of own payments are made before due date

MEASURES (SELECTION)

Optimize payment runs, differentiate suppliers based on their reaction to late payments, ...

PROJECT EXAMPLE 1)

Working Capital effect: 4,4 MEUR

Process analytics can be used to show which invoices are paid too early and what the causes are – this is how one's own payment behavior can be sustainably improved

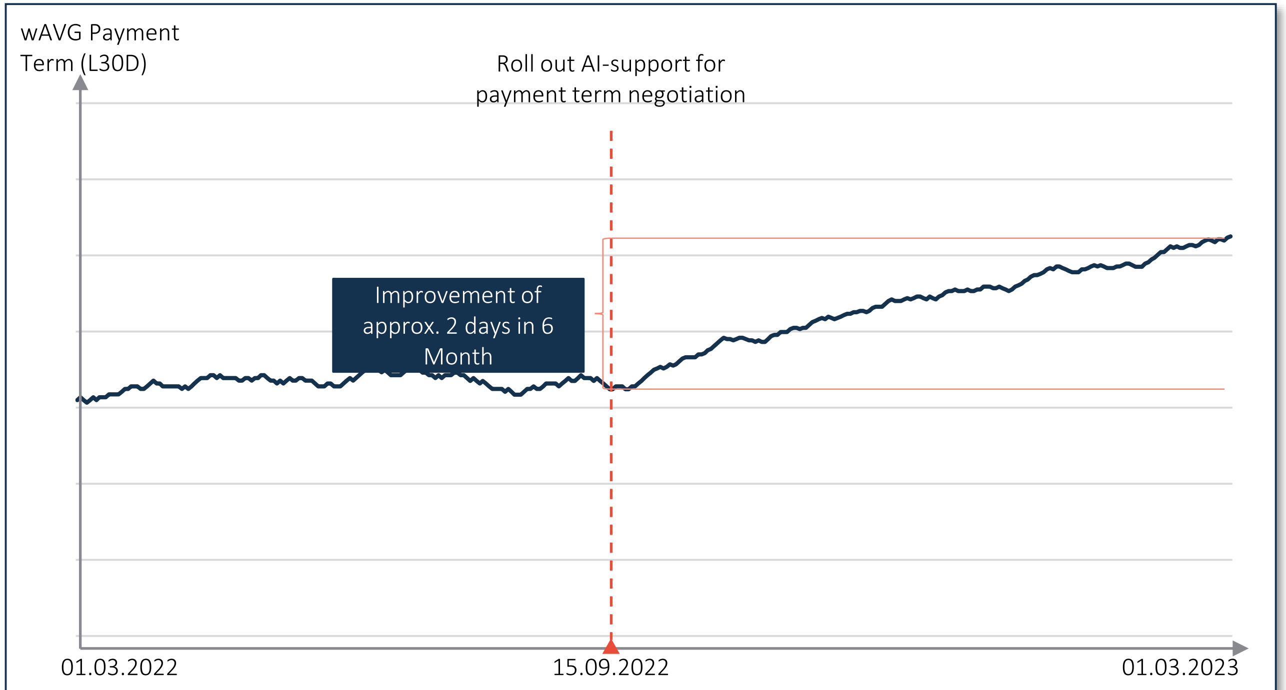
1) Customer example for a chemical distributor with a turnover of approx. 1.000 Mio. EUR per year

Enforcement of longer payment terms with suppliers

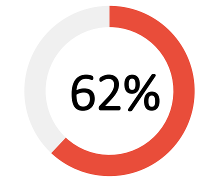
DeepDive Phase 1: Example analysis of payment term development over time

Accounts Payable

PAYMENT TERM | AI-supported payment term negotiation



FINDINGS



of payment terms can be extended in structured negotiation with suppliers

MEASURES (SELECTION)

AI-tools for payment term negotiation, negotiation training for procurement, ...

PROJECT EXAMPLE 1)

Working Capital effect: 2,7 MEUR

Utilizing AI tools supports the purchasing department in negotiating payment terms with numerous suppliers – furthermore, extra negotiation training results in better payment terms, particularly with strategic suppliers

1) Customer example from the process industry with a turnover of approx. 300 Mio. EUR per year

Enforcement of longer payment terms with suppliers based on reliability analysis

DeepDive phase 1: Example analysis of supplier reliability

Accounts Payable

PAYMENT TERM | Data-driven analysis of supplier reliability

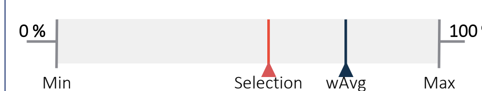
Supplier Performance

WERKS: 1131 GRP1: Alle DIM: EUR

LIFNR	EUR	# PO	# DS	# Total	# Scope	# Exact	# Ontime	Exact	Late	Early	Ontime	O+E
0000081054	10.432.914,47	29	1289	1318	1318	171	697	13 %	28 %	20 %	53 %	72 %
0000081427	4.196.786,31	1379	228	1607	1607	94	705	6 %	27 %	29 %	44 %	73 %
0000099998	3.542.582,69	51	616	667	667	63	387	9 %	26 %	16 %	58 %	74 %
0000986731	2.328.516,26	16	113	129	129	7	43	5 %	22 %	44 %	33 %	78 %
0000085778	2.275.911,85	110	218	328	328	42	234	13 %	13 %	16 %	71 %	87 %
0000087438	2.191.721,37	742	9	751	751	48	274	6 %	51 %	12 %	36 %	49 %
0000084814	1.819.731,64	395	47	442	442	15	108	3 %	55 %	21 %	24 %	45 %
0000086246	1.247.730,92	581	10	591	591	34	231	6 %	41 %	19 %	39 %	59 %
0000088909	1.101.835,53	159	35	194	194	27	163	14 %	13 %	3 %	84 %	87 %
0000976079	1.096.609,16	2	0	2	2	0	0	0 %	100 %	0 %	0 %	0 %
0000985647	1.020.760,25	424	2	426	426	10	97	2 %	29 %	48 %	23 %	71 %
0000972575	857.416,19	86	122	208	208	17	165	8 %	18 %	2 %	79 %	82 %
0000980463	831.359,61	155	0	155	155	8	67	5 %	34 %	23 %	43 %	66 %
0000987543	807.304,84	727	95	822	822	49	457	6 %	13 %	31 %	56 %	87 %
0000081048	747.207,59	17	11	28	28	6	19	21 %	18 %	14 %	68 %	82 %
0000084227	709.429,13	33	0	33	33	17	33	52 %	0 %	0 %	100 %	100 %
0000973732	707.378,04	1	163	164	164	9	79	5 %	16 %	36 %	48 %	84 %
0000516242	704.878,54	4	0	4	4	0	3	0 %	0 %	25 %	75 %	100 %
0000083133	697.799,99	17	175	192	192	15	150	8 %	14 %	8 %	78 %	86 %
0000979316	618.057,83	170	43	213	213	0	36	0 %	72 %	11 %	17 %	28 %
0000090203	606.899,39	2	12	14	14	0	7	0 %	43 %	7 %	50 %	57 %
0000971733	576.490,85	1	104	105	105	11	46	10 %	26 %	30 %	44 %	74 %
0000084108	568.069,14	1	62	63	63	2	26	3 %	35 %	24 %	41 %	65 %
0000972462	460.135,46	0	25	25	25	2	20	8 %	12 %	8 %	80 %	88 %
0000977880	458.892,33	57	0	57	57	1	16	2 %	61 %	11 %	28 %	39 %
0000093018	390.035,70	1	404	405	405	46	127	11 %	49 %	20 %	31 %	51 %
Gesamt	**53.513.120,13**											

# Total POs	Total Order Volume
170	618 TEUR

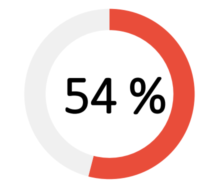
Ontime Delivery



Delayed Deliveries

Variance on delivery

FINDINGS



Increase in payment terms for the quantile of suppliers with the lowest performance

MEASURES (SELECTION)

Near-time reporting on supplier reliability in self-service dashboard

PROJECT EXAMPLE [1)]

Working Capital effect: 4,2 MEUR

Leveraging process mining to identify suppliers with below-average performance supports the purchasing department to factor in the unreliability into the payment terms

1) Customer example from the process industry with a turnover of approx. 300 Mio. EUR per year

H&C can provide a proven set of measures to sustainably optimize AP

DeepDive phase 2: AP measures from previously implemented projects

Overview of implemented measures for Accounts Payable optimization

- Development of a **Standard Payment Term Matrix**
- Transparency and **tracking of payments before** the **payment deadline**
- Tracking of agreed **payment deadlines** in purchasing
- Monitoring of **delivery reliability** as a basis for **renegotiating payment deadlines**
- Introduction of **additional payment runs**
- **Negotiation training** for **procurement team**
- Introduction of **supplier differentiation** to **control payments**
- **Technical implementation** to make it easier to **switch** between the **use and non-use of discount conditions**
- Adjustment of **payment runs**
- Identification of **double payments**
- **Supplier financing** for **open invoices**
- ...

Measures are developed for each field of action and potentials are estimated

DeepDive phase 2: Measure overview for one legal entity

Customer examples

Measures have been developed with the local team

Measure Overview – Indication in k€

No.	Measure	Process Variant	Addressed AP	Potential
01	Ensure prompt payment processing	Procurement	1.300 k€	260 k€
02	Maximize payment terms	All	2.200 k€	390 k€
03	Automate supplier invoice validation	Finance	650 k€	160 k€
04	Take advantages of early payment discounts	Procurement	1.100 k€	210 k€
05	Avoid unnecessary deducations with suppliers	Procurement/Finance	500 k€	50 k€
06	Prioritize payments on supplier critically	All	1.750 k€	340 k€
07	Improve payment processing via e-payment	Procurement/Finance	960 k€	80 k€
08	Ensure discounts (e.g. cash) are utilized	Procurement	780 k€	100 k€
09	Implement batch payment runs	Finance	1.530 k€	180 k€
10	Strengthen supplier relationships (training)	Procurement	1.220 k€	130 k€
		Total	11.990 k€	1.900 k€

- Identified fields of action are the starting point for the development of improvement measures.
- A multitude of proven improvement measures are analytically examined and evaluated for each field of action.
- Experienced Horn & Company Process Analytics experts support the simulation of the impacts, provide valuable process improvement and system knowledge, and facilitate the process.

Confirmed measures are aggregated into site and overall program

DeepDive phase 2: Comprehensive program of measures

Customer examples

Levers	Local Prices: Addr. AP Volume in M EUR, 09/18	Local Prices: Bottom-Up Pot. in M EUR	Responsible	Status
Improve Payment Terms and Scheduling	12.6	3.9	GPOs	buy-in
Streamline Invoice Approval and Payment Process	10.6	5.6	Regional Manager	buy-in
Optimize Cash Flow Management for Supplier Payments	27.3	12.1	Dispatcher	buy-in
Enhance Supplier Relationship Management	10.0	6.0	Plant manager	buy-in
Improve Forecasting for future Payables	-	*High, but no reliable estimate possible*	Controlling	buy-in
Implement automated Accounts Payables Systems	59.5	23.3	Service Manager	buy-in
Optimize Supplier Discount Utilization	11.3	2.0	Service Manager	buy-in
Consolidate Payments to Key Suppliers	9.3	2.4	H&C	estimated

		Operational Improvement Levers			Performance		
SKUs	Supply Chain Level	Improve Process	Adjust Parameter	Improve Forecasting	Strengthen Accountability	Bottom-Up Potential	Addressed AP Volume
134.081	Division A	15.7	0.0	0.0	*Flanking Levers*	**15.7**	39.8
27.986	Division B	13.8	3.0	2.5		**19.3**	49.4
41.752	Division C	9.8	4.6	5.9		**20.3**	51.5
184.466	**TOTAL**	**39.3**	**7.6**	**8.4**		**55.3**	**140.7**

- Aggregated identified and agreed-upon measures are consolidated with the respective stakeholders at the site level.
- This allows for an estimation of the overall potential and the potential ramp-up over time.
- Finally, the subsequent implementation program is outlined.

Content

1.

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3.

Horn & Company profile

Horn & Company: Experienced, pragmatic and high implementation competence

Company profile

Positioning Top-management-consultancy, founded 2008 – i.a. McKinsey, Roland Berger, Droege

Focus Strategy – **Performance improvement** – Corporate Restructuring – Digital transformation

Industries **Industrial goods** – Automotive/Special Vehicles – Consumer goods – Process Industries

Clients Corporate groups, Large SMEs, family businesses

Consultants **> 250 highly-skilled consultants**, including 45 partners/associate partners

Differentiation P&L focus – digital/analytics expertise – implementation

Growth Merger in 2023 with CON MOTO PART OF HORN & COMPANY -> Addition of extensive SSC and operations experience

Awards

Hidden Champion 2018

Hidden Champion 2020/21

Hidden Champion 2022/23

Hidden Champion 2024/25

Rang	Beratung	Punkte
1	Horn & Company	427
2	McKinsey & Company	403
3	Boston Consulting Group	394
4	Bain & Company	388
5	Oliver Wyman	383

Your contacts for data-driven Working Capital optimization at H&C

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