Many companies find themselves juggling hundreds and often thousands of vendors who provide everything from components to contract workers. Today, the average company spends anywhere from 20% to 70% of its revenues on third-party services, but struggles to keep pace with the thousands or even millions of invoices it processes each year. According to a leading analyst’s most recent Fraud Survey, companies lose as much as 1% of their revenues to duplicate or otherwise erroneous payments. Traditional recovery audits fail to address the root cause which leads to improper payments. More and more companies are now looking for ways to move beyond “recovering dollars” by stopping the leakages instead of chasing the drops.

Traditional recovery audits combine accounting and recovery to help organizations recover improper payments from suppliers. However, it is clear that the root cause which leads to improper payments remains unresolved. In the US, companies in the manufacturing sector alone recovered $21 billion in erroneous payments in 2011 - or nearly 25% more than the $17 billion they claimed in 2007.

**Introduction**

Keeping track of spending has always been a big challenge for businesses, and more so in the new era of global supply chain and outsourced services. Many of the larger retailers now handle 30,000 to 60,000 SKUs, which results in a high volume of purchase-to-pay transactions, which in turn leads to frequent errors. Volumes purchased by manufacturers vary; however frequent mergers and acquisitions result in significant duplication in vendor master data and contracts, which again lead to more payment errors.

While there are myriad reasons why many organizations are susceptible to making unwarranted payments, Genpact has identified several common factors:

- **A lack of quality data.** For companies with a large supplier base and huge transaction volumes, having inconsistent and partially missing data leads to lengthy, and difficult audits.

- **Limited internal resources.** Internal audit teams are often unable to invest enough time to resolve any systemic issues with processes that result in recurring errors in payments.

- **Late audits.** The traditional audits that many organizations rely on can run as long as 24 months following the transactions. This increases the likelihood of the documentation getting lost, which reduces the odds of a recovery.

- **Limited incentives to improve processes.** The traditional recovery audit involves external vendors who have little incentive to help organizations improve their processes and prevent future errors.
• **Unaddressed root causes.** Companies are unable to address the root causes leading to repeated faulty payments to their suppliers.

**The Solution Approach**

Genpact believes in a holistic solution that is developed around the following five principles:

• **First, understand the root cause.** Before our team conducts the traditional Accounts Payable audit, we perform a process review that incorporates our root-cause diagnostics.

• **Process design is a science.** Rather than making patchwork fixes to reduce “payment leakage,” we implement Genpact’s proprietary Lean Six Sigma / Smart Enterprise Process (SEP) methodology to fundamentally improve and streamline the client’s processes.

• **Use “pragmatic” technology.** We employ technology developed by an industry-leading systems provider to create custom solutions for supplier data management, claims creation and data mining.

• **Make the best use of our global delivery model.** We have made the investment in building a global delivery team that is both cost-effective and scalable. Our global delivery team is supported by Genpact’s OneFloor Unified Collaboration & Engagement platform, a cloud-based business process solution that is just a mouse click away.

• **Achieve continuous improvement.** Audit and recovery continuously feed into process transformation to achieve robust and mature processes.

A unique approach of audit, analytics and process transformation helps organizations recover faulty payments and reduce the risk of similar problems in the future. We provide solutions built around these four modules:

**Process Diagnostics.** Clients can identify the potential points of cash leakage from the P2P process. For this task, we dispatch a team of experienced personnel to the client’s site to assess the processes and existing gaps through quantitative diagnostics, qualitative diagnostics, and client reporting. Our on-site personnel assess the internal readiness and the end-to-end “As Is” processes. We interview key stakeholders and conduct a detailed root-cause analysis.

In parallel, we engage a team of offshore specialists to analyze the past process results and process data—and to determine the opportunity for potential improvements.

This assessment enables our team to identify the opportunities for improvement (e.g., incorrect invoice handling, payment terms that are not compliant with the contract, sub-optimal freight routing, and the failure to capture promotional pricing). Genpact then constructs a roadmap for the client that shows the opportunities for improving its processes (such as electronic invoicing) and compliance (e.g., contract amendments for consistency).

**Audit.** Genpact believes that one of the best ways to recover any erroneous payments is to shorten—and sharpen—audit cycles through customized technology. Our audit methodology includes data collection, audit analytics and substantive testing, all of which enable our team to understand accurately the improper payments to the different vendors.

**Recovery.** To help our clients recover any erroneous payments to their suppliers, we assign a dedicated collections team with multilingual capabilities. We work with the client to develop the right staffing mix of offshore and “near-shore” call agents and then contact each supplier at a time and in a manner set by the client.

Genpact’s recovery process usually enables our clients to achieve an 80% to 90% recovery rate. Even where we are not able to recover overpayments from suppliers, Genpact provides clients with a list of non-compliant suppliers to help them to build better informed supplier scorecards.

**Process transformation.** Our goal isn’t just to help clients recover erroneous payments. We do not consider the job finished until we have helped the client address the root cause that led to improper supplier payments. The process transformation plan we design for each client incorporates Lean

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**CHALLENGES RELATED TO CONTRACTS**

- Excess charges levied by vendors due to undue unit rates
- Rate/contract amendments not considered
- Duplicate payments made due to multiple invoices raised
- Duplicate charges across consecutive/future invoices
- Billing for services not contracted
- Inadequate volume discount provided by vendor
- Billing of services not used/delivery mismatches
- Overcharging of VAT

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*Our research has shown that many repeated billing errors result from contract amendments.*
and Six Sigma practices, as well as Genpact’s proprietary SmartEnterprise Processes (SEP®) framework.

Our on-shore team performs its due diligence of the existing processes and determines the transformational “to-be” state. We develop a comprehensive blueprint that is designed to promote process and transactional excellence—and then conduct continuous process monitoring to verify that the client’s payment practices adhere to accepted operational metrics.

**Why Genpact**

Clients choose Genpact for its technical knowledge, industry experience, and the synergies from its many different business process solutions. Genpact brings to each client assignment:

- Extensive experience in advanced Finance & Accounting (F&A) services. Genpact employs more than 16,000 full-time personnel trained in Accounts Payable, Order to Cash, Record to Report and other protocols. Our team members also bring extensive domain experience in financial services, manufacturing, healthcare, services and many other sectors.
- A philosophical commitment to help clients reduce erroneous payments. Other service providers have little or no incentive to fix the root causes that cause revenue leaks, since that could reduce their own revenues.
- A pragmatic approach to technology. Genpact teams with Oversight, a leading provider of Business Process as a Service (BPaaS) solutions.

**TOP LEAKAGE POINTS**

<table>
<thead>
<tr>
<th>TOP LEAKAGE POINTS</th>
<th>% VALUE LEAKED</th>
<th>% 'RECOVERABLE' LEAKAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data errors and omission</td>
<td>5-7%</td>
<td>80-85%</td>
</tr>
<tr>
<td>Unauthorized payments</td>
<td>4-5%</td>
<td>~80%</td>
</tr>
<tr>
<td>Overpayments</td>
<td>1.5-2%</td>
<td>~70%</td>
</tr>
<tr>
<td>Duplicate payments</td>
<td>1-2%</td>
<td>~90%</td>
</tr>
<tr>
<td>Unusual purchasing behaviour</td>
<td>0.5-1%</td>
<td>~80%</td>
</tr>
<tr>
<td></td>
<td>12 - 17%</td>
<td>~80%</td>
</tr>
</tbody>
</table>

**BUSINESS IMPACT**

- Operating metrics
  - Decreasing in working capital by up to 3 - 5%
  - Increase in cash flow by 2 - 3%
  - Bottom line improvement by up to 0.1 - 0.2% of revenues
- Process level metrics
  - 10 - 15% improvement in payment process integrity
  - 60 - 70% transaction level compliance assured
  - 15 - 20% increase in best price efficiency

Source: Genpact experience

**Retailer –$25 Million in Annual Cash Recoveries**

**Challenge:** A leading retailer was losing profits due to inefficient Procure-to-Pay (PTP) processes. The company was witnessing high levels of vendor chargebacks, and its PTP management suffered from the lack of analytics and manual processes that resulted in long turnarounds.

**Genpact’s Solution:** Genpact redesigned the retailer’s End-To-End deductions process and expedited deduction validations (planned vs. preventable). Genpact also redesigned the planned deduction workflow to minimize the wait time for settlements, and instituted an agent-level mechanism for evaluating deductions.

The Genpact team analyzed customer claims, revamped the invalid claims resolutions, and defined the deduction policies with merchandising management to minimize settlement and denials. The team then implemented Genpact’s proprietary tool to support ongoing deduction evaluation and resolution by prioritizing high-yield deductions.

**Results Achieved:** Genpact’s analysis helped the retailer generate $25 million in annual cash recoveries and 17% cost savings from optimizing its network flow and location of its distribution centers.

Up to 12-17% of supplier payment value is ‘leaked’ in an average manufacturing company, of which 80% can be recovered.
Genpact brings experience in handling major Enterprise Resource Planning (ERP) systems, including those from Oracle, SAP, JD Edwards and PeopleSoft. Genpact also makes available controllership tools, including a duplicate payment prevention tool.

Genpact teams with Axis Risk Consulting to provide organizations with fully independent audits. Axis is a specialist risk and compliance firm with extensive experience in F&A process and governance, risk and compliance. A wholly owned subsidiary of Genpact, Axis maintains an independent identity to ensure that it provides impartial and objective audit services to clients—including on Genpact delivered services.

Axis brings experience in governance, risk and compliance services with focus on corrective action and root-cause analysis. Axis has developed Six Sigma methodologies for improving various F&A processes, including Procure to Pay, Order to Cash and General Ledger. Axis employs more than 150 professionals trained in Sarbanes-Oxley and Internal Control over Financial Reporting requirements.

**U.S. Energy Producer - $4.6 Million Recovery from Contract Review**

**Challenge:** One of the world’s largest oil and gas producers asked Genpact to review the contract with a supplier providing eight services worth $1 billion over 10 years. The supplier billed monthly, through consolidated invoices with line items running in the thousands. The energy firm had no mechanisms in place to verify it was receiving the volume rebates it had negotiated.

**Genpact’s Solution:** Genpact assigned a remote team to review the supplier contract and amendments to develop a master price list for the items and services sourced from the supplier. Genpact’s team reconciled the payment details to the supplier invoices, and then developed tests to identify credits that weren’t provided, as well as charges that either the energy firm hadn’t contracted for or that comply with the contracted terms. Genpact’s team recalculated the amount of volume discounts and rebates based on contract terms.

**Results Achieved:** Using offsite analytics, Genpact identified potential overcharges totaling US $4.6 million for the two years reviewed.

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**About Genpact**

Genpact Limited (NYSE: G), a global leader in business process management and technology services, leverages the power of smarter processes, smarter analytics and smarter technology to help its clients drive intelligence across the enterprise. Genpact’s Smart Enterprise Processes (SEPSM) framework, its unique science of process combined with deep domain expertise in multiple industry verticals, leads to superior business outcomes. Genpact’s Smart Decision Services deliver valuable business insights to its clients through targeted analytics, reengineering expertise, and advanced risk management. Making technology more intelligent by embedding it with process and data insights, Genpact also offers a wide variety of technology solutions for better business outcomes.

For more information, visit [www.genpact.com](http://www.genpact.com). Follow Genpact on [Twitter](http://twitter.com), [Facebook](http://facebook.com) and [LinkedIn](http://linkedin.com).

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