



AMERICAN EXPRESS
GLOBAL CORPORATE PAYMENTS

CASE STUDY

HOW USING ELECTRONIC PAYMENTS
CAN IMPROVE CASH FLOW



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Linamar's Peter Zago gives a first-hand account of how a digital solution improved his business.

In the aftermath of the global recession, companies across a range of industries, all around the world, saw cutbacks, layoffs and shrinking sales. In this environment, strong cashflow management is essential for businesses to grow. Yet for some organizations their own cashflow was being sacrificed for the benefit of their buyers.

Freeing up cashflow for suppliers and buyers

With 16,800 employees in 39 manufacturing locations across 12 countries, Linamar relies heavily on its suppliers to provide products for use in highly engineered autoparts. However, the global financial crisis hit the industry hard and many suppliers were struggling. Peter Zago, Director of Purchasing at Linamar, says this was the trigger point to start thinking about what the company could do to help its suppliers with cashflow.

"We started looking at how we could accelerate our payment terms and also, looking from the back-end, deferring our payment for the product," he adds.

The new payment solution needed to be easy to integrate with the existing system - Linamar's financial platform – and not cause any inconvenience to the strategic suppliers chosen to go paperless. At that point, Linamar went out to tender to three to four main banks across Canada.



"American Express had the best solution and the best incentives for Linamar, that's why we chose the platform," Peter said.

Evolving from paper to digital

Negotiations and consultation about this approach did not stop once Linamar had selected the American Express purchasing card program. As Linamar is such a large, global company – with sales of \$2.8 billion in 2011 – the complexity of introducing a new system was high, so communication was essential.

Linamar and American Express partnered together to create a smooth transition between the cheque-based payment program and the new purchasing card. The implementation team worked with Linamar's internal IT personnel to integrate American Express with the financial systems in place. There were also numerous focus groups and internal and external meetings with suppliers ahead of launch.

Once everything was agreed, a three-month pilot program went ahead with four vendors to "get all the bugs out". From then on, an average of five or six vendors have been added each month, to the point that now around 80 suppliers are on the paperless system.

"Obviously it's a big program for Linamar, we wanted to make sure we launched it flawlessly," Peter explains.

Working towards a paperless future

Due to the challenges unique to Linamar, and its request to roll out the new program only to strategic suppliers, American Express identified an innovative solution. Using the existing front-end processes, vendors would see little change in the processing aside from being issued an authorisation code via email instead of a cheque.

The new system allows suppliers to 'pull' the invoiced amount from Linamar's purchasing card. In this way, suppliers can be paid within 25 days, dramatically less than the 90 days it can take to cut a cheque. However, as American Express is paying the vendor bill, Linamar has around 80 days to settle the balance. The solution boosts vendor cashflow with prompt payment, but improves Linamar's cashflow by providing a float.

Linamar now only has to make one payment to American Express, instead of cutting cheques for each of their suppliers. This consolidation of payments has also been a "great help" and made the whole process more efficient and effective.

Reaping the rewards

Since launching the program, Peter says the difference is remarkable.

"There are great benefits to an organization using this," he explains. "We would definitely recommend a paperless solution to other organizations."

Not only has the change given their organization significant cashflow advantages, but the move has also improved the relationship that Linamar has with its suppliers.

"In our business, we rely a lot on local suppliers who do provide technical assistance, inventory and some specialised products ... without the suppliers we would not be able to continue to grow. So it's important to us to have local suppliers who can grow when you grow and keep up with the pace," Peter explains.

Having the consultative expertise and help of the American Express team throughout implementation was invaluable, Peter says. Evolving processes to improve efficiency can ultimately change the organization's day to day A/P and procurement processes. Partnering with a vendor who understands the steps needed to properly integrate existing systems is vital.