SAP Business Transformation Study | Utilities | American Electric Power

American Electric Power: Funding the Procure-to-Pay Program with Early-Payment Discount Savings

American Electric Power is one of the largest U.S. electric utilities, delivering electricity to more than 5.3 million customers in 11 states. The company also owns the nation's largest electricity transmission system, a 40,000-mile network that includes more 765-kilovolt extra-high voltage transmission lines than all other U.S. systems combined.

In a joint effort with procurement, accounts payable, and treasury, the utility looked to optimize its procure-to-pay operations and made working capital optimization a key component. Working with the SAP® Ariba® Payables solution, American Electric Power has standardized payment terms, extended its days payable outstanding, and aggressively pursued early-payment discounts, realizing a substantial increase in discount savings in the first year. These savings are being used to fund its larger procure-to-pay automation program.

Gaining Early-Payment Discount Savings with SAP® Ariba® Payables

American Electric Power Inc.
Columbus, Ohio
www.aep.com

Industry
Utilities

Products and Services
Electricity generation and distribution

Employees
17,600

Revenue
US$16.4 billion

SAP® Solutions
Discounting capability available with the SAP® Ariba® Payables solution and Ariba Network

To streamline procure-to-pay operations and optimize working capital, American Electric Power deployed the discounting capability in the SAP Ariba Payables solution. Now it has standardized payment terms, extended days payable outstanding, and is pursuing early-payment discounts – resulting in a huge cost benefit for the company.

Before: Challenges and Opportunities
- Streamline procure-to-pay operations to improve business process efficiency
- Standardize payment terms and extend days payable outstanding (DPO)
- Increase cash earnings through early-payment discounts
- Reduce borrowing costs

Why SAP
- Discounting capability that is available with SAP Ariba Payables
- Ariba Network for transacting with suppliers electronically

After: Value-Driven Results
- Increased discount savings substantially in the first year
- Extended DPO, effectively avoiding two days of interest expenses on accounts payable balances
- Consolidated 150 different payment terms down to just 4
- Gained a simple user interface to promote supplier adoption
- Deployed independently of PO-invoice automation solutions
- Helped fund a larger procure-to-pay project from the cost savings

SAP Ariba

2 days
DPO extension

1.5%
Average early-payment discount rate

4
Standardized payment terms, down from more than 150