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FITNESS CHAIN STOPS SWEATING AP WITH A FULLY AUTOMATED PROCESS

API Outsourcing Helps National Chain of Clubs get its Financial House in Order

Challenge:

- Fast growth, extreme decentralization & high turnover made establishing discipline over AP & other accounting functions nearly impossible

- Lack of control over AP hinder Sarbanes-Oxley compliance

- AP not a core competency or spending priority

Solution:

- API's Accounts Payable Service

- Invoices available for online viewing within 24 hours

- Automated online routing of invoices for electronic approvals

- Standard & ad-hoc reporting

- Built-in financial controls

- Online audit trail

- Additional personnel resources for back office tasks

Results:

- AP now automated, traceable & auditable

- Internal AP costs slashed by $200,000

- Financial discipline imposed on 40 clubs nationwide

- Sarbanes-Oxley compliance achieved

Challenge

Spend a little time in an upscale fitness club, and it quickly becomes obvious where management's priorities lie. A snapshot: Mosaic tiles, lavish spa areas, mahogany locker rooms, mood lighting, fresh cut flowers, furnishings and fixtures which are scrupulously contemporary. It's all designed to deliver a distinctively upscale member experience, surpassing the expectations of fitness - conscious high achievers in New York, Miami, Los Angeles and other affluent urban markets.

Take a peek into the back office for another clue about management's strategy. Here you'll see a back office staff which runs lean and efficiently. Any savings achievable here can be directly reinvested in customer-facing operations. "The back office is not where we focus our dollars," says their Vice President of Finance. While that philosophy is true of most health club chains in the hotly competitive fitness market, few adhere to it as religiously as this club.

The strategy seems to be working. This company has grown exponentially over the last five years. From a single club in Manhattan, the chain now has clubs nationwide and more than 120,000 members.

Throughout this growth, this company never lost its focus on the all-important member experience. The back office couldn't be ignored, however, this is where things went less smoothly. "Because we have been such a high-growth company, our internal infrastructure often couldn't keep pace," says their VP of Finance. "Eventually we knew it had to be upgraded by re-engineering a combination of people, processes and systems." Accounts payable (AP) involved all three areas and was especially troublesome for such a rapidly growing company. When it came to people, turnover was simply too high to ensure that AP policies were constantly followed both at their Manhattan facility, which doubles as the companies headquarters, and its growing number of clubs.

Processes and systems fared no better, since the lack of financial staff continuity in the club made it hard to put in place procedures and technology which gave the finance staff at headquarters proper control.

As a result, "We didn't have good visibility into the purchase-to-pay cycle," their VP of Finance says. "Because we had only informal procedures in place, we often didn't know who was authorized to make a request, who was authorized to approve it, whether invoices were being sent to the correct address, or the answers to other critical questions." As problems with misplaced invoices, mismatched purchases orders, duplicate billings from vendors and invoices, and out-of-control spending on the local level mounted, they decided it was time to take a fresh look at its AP people, processes and systems.

The Solution

Before joining this company in 2005, the VP of Finance had held a similar position at Simon and Schuster, the publishing company, which had successfully outsourced its AP function. He believed then, and now, however, that outsourcing isn't the answer to every back office problem. He resisted attempts, to outsource Simon and Schuster's IT function, and while he took some heat for his stance, the company eventually came around to his view. But certain functions, particularly finance and accounting processes like AP, were a different story "Because it was so far from being a core competency that we needed to address internally, we could achieve much better efficiencies with more discipline and control by outsourcing it," he says. "Philosophically, I'm not someone who believes that everything can be done better outside the company. But I absolutely think that's the case with AP." He also knew that his company had numerous options for an AP outsourcing partner. API, however, stood out. New to the Manhattan market, API seemed to take special efforts to understand our companies requirements, their VP of Finance says.

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Case Study - *(cont'd)*

The company also liked the fact that it could take an "a la carte" approach with API by outsourcing a specific function such as AP, and seamlessly add more functions over time, from billing to cash management and check printing, even outsourcing its entire finance and accounting operation. API's "assisted automation" approach of providing a combination of labor and technology to optimize AP processes has been very valuable.

API was also flexible enough to adapt to the companies ideas about electronic workflows. At the time, they were implementing a web-enabled online purchase requisition system – essentially a web interface to the companies backend accounting system which allows purchasers in the clubs to select from approved vendors and products and submit orders. "API was adaptable to interface with the purchase requisition system we were bringing to the process," said their VP of Finance. "So they looked like the right fit at the right time."

Bottom Line Results

Before outsourcing with API, the company was spending more than $300,000 annually on labor and overtime to process accounts payables internally. The VP of Finance estimates that API shaved $200,000 off that figure with an end-to-end solution for the accounts payables process – from initial invoice presentment through approval and payment. API provided both a purchase order and non-purchase. The purchase order solution matches incoming invoices with the companies purchase order data to ensure validation at the line item level. In addition to the reduction in operating costs, API's solution provided several other immediate benefits, including:

- Improved financial control
- Sarbanes-Oxley compliance
- Virtual elimination of errors and duplicate payments
- Better managed Days Payable Outstanding
- An electronic audit trail
- Reduction in labor

Sarbanes-Oxley compliance was crucial to the company because, even though the company is privately held, future plans may include a public offering. API's electronic audit trail and API's annual SAS 70 Type II audit "reduces the Sarbanes-Oxley pressure on us tremendously," notes the Purchasing Director.

About API Outsourcing

API Outsourcing, Inc. is a leading onshore Finance and Accounting Outsourcing (FAO) provider of innovative state-of-the-art document management, accounts payable, accounts receivable and accounting services headquartered in St. Paul, MN. By transforming manual paper-dependent payables and billing processes through our imaging, bill delivery and workflow systems, customers minimize the labor intensive work associated with back-office processing and can focus on their core business. Outsourcing benefits include improved cash flow through improved DSO and controlled DPO. This combined with reduced processing costs, increased business intelligence and improved customer/vendor relationships provides the ultimate value proposition. API currently processes over one hundred million transactions annually, delivers world-class quality, provides exceptional customer satisfaction, utilizes Six Sigma practices and performs a SAS 70 Type II Audit annually.

API Solution Framework
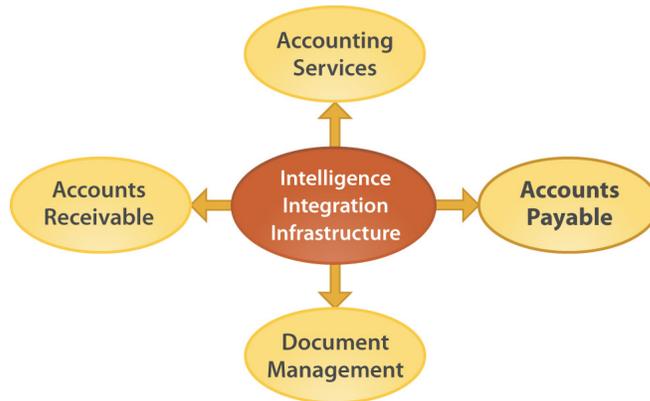
SAS 70 (American Institute of Certified Public Accountants (AICPA) Auditing Standards Boards Statement on Auditing Standards No. 70) is the set of standards used by a service auditor to assess the internal controls of a service organization that provides outsourced services that impact a customer's control environment. A Type II service auditor's report includes the service auditor's opinion on the fairness of the presentation of the service organization's description of controls which had been placed in operation, the suitability of the design of the controls to achieve the specified control objectives and an opinion on whether the specific controls were operating effectively during the period under review. In addition, the requirements of Section 404 of Sarbanes-Oxley make SAS 70 audit reports essential to the process of reporting on the effectiveness of internal control over financial reporting.

"We now have a process that is automated, traceable, auditable, and adaptable to changes in personnel and approval levels," says the purchasing director. "That fulfilled our number one objective for outsourcing accounts payable to API – gaining the internal controls we need in our environment."

API turned out to be the perfect partner for the company. "Not only does the solution streamline our accounts payables process, but the automation API brings to the table provides us with the financial controls, cost reduction and procurement discipline needed to support our fast growing company," stated their VP of Finance.