

# BARRIERS AND BENEFITS

**JOHN SALTER AND SAW HOOI HIM** ANALYSE THE OPPORTUNITIES PRESENTED BY ELECTRONIC BILL PRESENTMENT AND PAYMENT, STEMMING FROM THE INTRODUCTION OF BROWSER-BASED TECHNOLOGY AND THE EVOLVING ROLE OF THE TREASURER.

**T**he use of the internet is widespread, having gained rapid acceptance in both homes and businesses. It is a technological revolution that is difficult to ignore and is backed by very impressive statistics. From a global perspective, there are now some 500 million internet users.

In the European Union, Forrester Research<sup>1</sup> estimates that online B2B trade will surge from £77bn in 2001 to £2.2 trillion in 2006. Its projection in 2006 for the three major European markets – the UK, Germany and France – is that 23% of sales will be transacted online, accounting for 64% of the combined volumes for the EU online trade.

The internet provides a delivery infrastructure that facilitates a very cost-effective medium to inter-connect businesses, so promoting online transactions. It is even recognised by the proponents of electronic data interchange (EDI) that the internet will help to eliminate the traditional barriers of entry to EDI, such as large costs and trading volume requirements, and proprietary software.

**THE BIRTH AND EVOLUTION OF EBPP.** Given these developments in the internet space, companies of all sizes are evaluating or implementing the use of this technology. One internet-based technology which firms can easily adopt or leverage for their existing online procurement system is electronic bill presentment and payment (EBPP).

EBPP allows the company to present its bills/invoices online, and for its customers to process these bills/invoices online. The two key variants of the EBPP business model are the biller-direct and consolidator models. In the former, the firm directly presents electronic bills to customers for processing.

In the consolidator model, it is the consolidator that is positioned between the companies (billers) and customers (consumers) to provide this service. The initial thrust of EBPP was focused on the business-to-consumer (B2C) front, especially for companies that had high volumes of bills to process. The utilities, telecoms and banking industry (for credit card collections) became the obvious candidates to adopt this technology. The consolidator model evolved from the biller-direct model by allowing customers to have access to multiple billers through a single interface.

## THE BENEFITS OF EBPP

- Improved transparency on the bill-to-payment process
- Enhanced customer experience
- Streamlining of the settlement process
- Better dispute management
- Cost-reduction

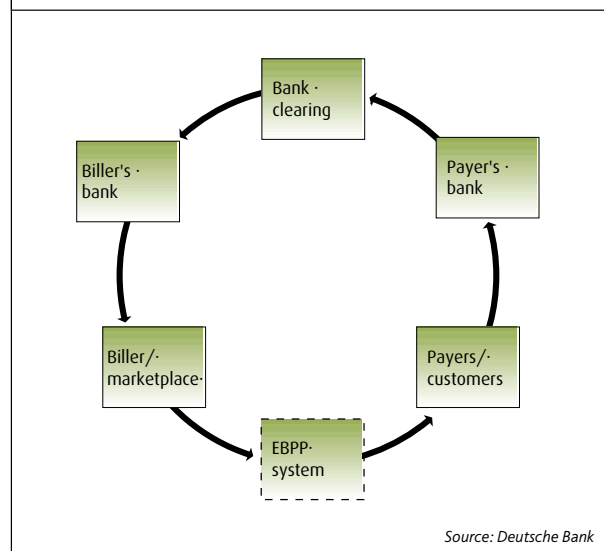
## 'EBPP ADDS VALUE TO ANY FIRM WITH AN ESTABLISHED BILLING ENGINE AND NEED NOT BE PART OF AN OVERALL CENTRALISED MODEL'

It did not take long, however, for EBPP service providers to recognise that B2B EBPP offers greater scope for companies. In the UK B2B market, the first trigger for examining the viability of EBPP is often seen hand-in-hand with the desire to implement a centralised business model, in the form of a shared service centre or payment factory.

In fact, EBPP can be viewed as adding value to any firm with an established billing engine and need not be part and parcel of such an overall centralised business model.

**VALUE PROPOSITION OF EBPP.** The early providers of EBPP focused on cost reduction as the key value proposition for adoption of this technology. No one will dispute that handling and processing invoices electronically over the traditional paper-based approach is more economical. In the July/August 2002 publication by the Federal Reserve Bank of New York, economist Chris Stefanadis<sup>3</sup> noted: "Billers' average processing costs in a paper-based system run at

**FIGURE 1**  
THE ELECTRONIC BILL PRESENTMENT  
AND PAYMENT PROCESS



\$1.25 per bill, using the internet (or proprietary electronic networks) may reduce this cost by 50%."

Depending on the volume of invoices and the number of people required to handle the full 'bill-to-payment' chain, the cost can be substantially higher when taking into account the costs of customer service and manual reconciliation of payments against invoices.

Besides costs, EBPP benefits include:

- the streamlining of the settlement process that has the potential of improving the days-sales outstanding (DSO);
- better online dispute management for both billers and payers;
- improved transparency on the bill-to-payment process helping to create a better buyer-supplier relationship; and
- an enhanced customer experience with the potential of improved marketing using the internet as the medium.

**THE BENEFIT FOR THE TREASURER.** For one, it is a tool that can help in working capital management. Having a net positive working capital – where the short-term current assets exceed its current obligations or liabilities – is crucial for a business. EBPP is essentially an accounts receivable management tool. It efficiently and effectively delivers invoices to customers electronically. It can notify customers on the availability of invoices so that they can better manage their accounts payable; online dispute management can reduce the delay in payments; and, since customers have control over the payment process, they are more inclined to use electronic payments. Furthermore, it automates the reconciliation process by matching payments to invoices. Better management of accounts receivable translates into the faster realisation of cash, resulting in improved liquidity through the reduction in DSO.

With EBPP, information on the buying and payment behaviour of customers is readily accessible. This provides useful information on the profile of a company's customers that can be used to enhance customer relationships and provide better customer risk

management. Additionally, cost transparency, which would otherwise be difficult to manage with the traditional paper-based approach, makes it a useful management tool.

**CHALLENGES TO THE ADOPTION OF EBPP.** Given the promise EBPP offers, the expectations were that this technology should receive widespread acceptance. Unfortunately, the markets – not just in the UK – have been slow to react. A number of key observations explain this.

EBPP is a service that relies on the acceptance by the company's customers for adoption. Because of competitive pressures, companies in general do not have a high level of influence over their customers, as compared to a supplier scenario. However, experience shows that in markets where the firm is a dominant supplier and/or has a strong influence over its customers, for example, in a master distributor relationship, EBPP adoption rates tend to be high. This is even more true where there is a 'pull' or demand for this technology from the customers.

'Closed' communities, such as electronic marketplaces, would also create fewer barriers for EBPP. With pre-determined partners trading in a controlled and mutually agreed manner, the opportunity to roll-out such a solution on a wholesale basis exists. All counter-parties become benefactors of EBPP and each would stand to benefit, given that not one single 'seller' is present in the relationship.

The costs related to investment in EBPP and the lack of strong empirical evidence on its benefits is another hindrance. As with any new technology, there are fixed costs in infrastructure investment and time. As the adoption rate for EBPP is low, a sufficient user-base is lacking to provide solid data on its business benefits. In situations where the company and/or its customers can identify or perceive benefits – for instance, EBPP as a tool to address the high disputes prevalent in their industry, faster turnaround in the delivery of goods through electronic payments and payment reconciliation – EBPP adoption can be observed.

Issues regarding the legality of electronic invoices are creating barriers to its take-up. This is particularly true in the EU, where the adoption rate has been low awaiting the EU legislative action.

**OVERCOMING THE CHALLENGES.** Given that the company's customers are key in embracing EBPP, established service providers are focused on expanding their service offerings to take into account these needs. Additional functionality now exists within the EBPP system to streamline the payable processes, such as auto-processing of payments, notification of invoices due for payments, support for wide choice of payment methods (electronic and paper-based), and the ability to download key invoice information for analysis.

Another key initiative is to integrate EBPP to the company's customers' enterprise resource planning (ERP) systems. This supports the bi-directional transfer of data between the EBPP and ERP systems. The EBPP system handles the delivery of electronic invoices to the ERP system to facilitate payment processing, and receives an update file from the ERP system indicating which invoices have been paid.

Re-packaging the offering has also become an important development in the evolution of EBPP. In the UK, companies already managing a netting cycle recognise that EBPP provides additional functionality and interactive support for global inter-company business flows. The ability to confirm, dispute, manage and ultimately pay inter-company invoices in a streamlined and highly cost-efficient and timely manner may well serve as the stepping-stone to wider adoption.

## 'REALISATION OF THE COMPETITIVE ADVANTAGES THIS TECHNOLOGY OFFERS WILL BE KEY IN THE WIDE-SCALE ADAPTION OF EBPP'

To reduce the initial investment costs of implementing an EBPP system, the service providers are offering application service provider (ASP) solutions. In an ASP model, the EBPP service provider is responsible for hosting the application and works with the firm to integrate the ERP system to receive electronic invoices. The fee component comprises implementation and training, any customised effort required and a charge on each invoice processed, including payment processing in the case of a bank. This usually equates to a fraction of the cost involved if the company were to internally develop or customise, implement and host an internal EBPP solution.

Established EBPP service providers are taking a consultative approach, working with the company to educate and jointly market the service to their customers. They leverage their experience to ensure that implementation and roll-out of the service achieves maximum success. Furthermore, they are involved with interest groups to educate and promote the service, to influence industry standards and to act as a single voice, especially where legislation is concerned.

**REALISE COMPETITIVE ADVANTAGES.** The adoption of EBPP has its barriers. However, it also offers many advantages to both firms and their customers. It is a platform that impacts many areas of the business, acting as a catalyst for businesses to re-engineer their bill-to-payment processes and to deliver an enhanced service to their customers. From a treasurer's perspective, this technology can expand their value-added role by improving working capital management, customer risk management and managing costs. Prompting internal debate among UK-based firms, the service is being evaluated for feasibility and applicability by internal working committees formulated solely for this purpose, in the overall context of business reviews.

As with any pioneering technology, the role of the EBPP service providers will be to identify the early adopters and to constantly innovate and deliver a service that creates value for them. Realisation of the competitive advantages this technology offers will be key in the wide-scale adoption of EBPP. The general market perception is not a question of if we will use EBPP, but when.

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### Notes

<sup>1</sup> Copyright © 2002 Forrester Research, Inc., *The Future of Europe's Online B2B Trade*; July 2002

<sup>2</sup> "Why Hasn't Electronic Bill Presentment and Payment Taken Off?" *Current Issues in Economics and Finance*; Federal Reserve Bank of New York; Vol. 8 No. 7; July/August 2002