Intelligent invoice processing

ANDREW BETTS AND **ALI ANSARI** EXPLAIN THE ADVANTAGES OF UNITING THE COMPANY'S PHYSICAL AND FINANCIAL SUPPLY CHAINS.

Organisations are finding that recent global economic developments – shifts in supply and demand for goods and services, and tightening credit – have strained their working capital requirements. The small and medium-size enterprises most affected by these changes are showing renewed interest in working capital finance products.

Buyers that have managed to ride out the financial crisis are looking to optimise their sourcing and distribution models, thereby reducing costs and bringing more resiliency and flexibility to their supply chains. Without the critical information needed to make informed decisions, they face a daunting task. This article explores the various techniques that are available today to help companies improve efficiency within the area of invoicing, which in turn can generate much needed working capital for both buyers and their suppliers.

AUTOMATING ORDER INFORMATION The health and efficiency of supply chains depend on coherent, accessible and "intelligent" information. However, companies looking to improve their utilisation of working capital often overlook the importance of obtaining the information that would help them better understand their supplier relationships.

The process transformation required to optimise the working capital cycle has been stalled by lack of centralisation and automation. Many multinationals still operate a number of disparate internal finance and order management systems. There is often little global centralisation or standardisation of sourcing activities and processes. In addition, the collection and processing of orders and invoices are typically not fully automated due to the variety of electronic communication methods and formats driving additional technology costs for suppliers.

Today, the importance of information to effective working capital management is renewing the corporate focus on invoice processing and electronic messaging. Automated communication between buyers and sellers generates real-time, reliable information on receivables and payables, which in turn facilitates better management and potentially additional supply chain financing opportunities.

PROMOTION OF ELECTRONIC MESSAGING Corporates in Europe are seeing changes on the e-invoicing front. On 28 January 2009, the European Commission adopted a proposal to change the VAT Directive's invoicing rules, and published a communication on the technological developments in the field of electronic invoicing.

The aim of the proposal is to increase the use of electronic invoicing, which will reduce the paper-intensive burden of collecting and processing payments for small and medium-sized enterprises while helping EU member states tackle fraud.

The proposal eliminates barriers to e-invoicing in the VAT Directive by subjecting paper and electronic invoices to the same tax treatment. As in the US, there would no longer be a difference in how invoices are treated; electronic and paper invoices would be considered equal.

The European Commission is clearly supportive of electronic invoicing and views its adoption as a key element of its action programme to reduce burdens on business by 25% by 2012. Since it will minimise exposure to unnecessary human intervention and facilitate reporting, e-invoicing is also a key component of the Commission's strategy to combat VAT fraud.

EMPLOYING A COLLABORATIVE SOLUTION The latest generation of third-party collaborative platforms, which include J.P. Morgan's Order to Pay, Freight Payment and Audit and Supply Chain Finance solutions, enables the efficient exchange of open account information between suppliers and buyers, and opens the door to discounting opportunities. With e-invoicing laws and information security standards providing the necessary framework, these solutions have also gained more acceptability for audit, regulatory and VAT purposes.

As European and American authorities enable the use of technology to streamline invoice processing, global supply chain interactions will become more efficient. Buyers in these two regions will be able to more easily and quickly collect invoices, negotiate payment discounts, or offer alternative solutions to source funding for their small and medium-sized suppliers.

A collaborative supply chain platform centralises the collection and analysis of the order information for both buyers and sellers, providing visibility into global supply chain actions. This helps manage working capital activities, including timely participation in flexible financing programmes.

In the coming years, collaborative solution deployment will become more commonplace for business-to-business models due to the ability to support process efficiency improvements, payables/receivables management, supply chain visibility, risk mitigation, redeployment of resources, improved relationships, ease of implementation/upgrades, and development of finance exchanges.

PROCESS EFFICIENCY IMPROVEMENTS Paper invoices require manual review, usually by more than one person for due diligence. The process can also involve more than one department, as the originator of the order may need to validate the invoice before it can be processed.

J.P. Morgan's experience indicates that one full-time employee (FTE) or equivalent can process effectively up to 10,000 invoices per annum in a manual or paper-intensive workflow environment. Research in various forums suggest varied levels of savings can be achieved through automation, but a conservative estimate of up to 50% in administrative costs easily justifies the investment for process improvement through use of technology. At the same time, using a third-party solution helps avoid technology development, maintenance, upgrades and other associated costs. Other benefits are shown in Table 1.

PAYABLES/RECEIVABLES MANAGEMENT Historically, the driver for automation and centralisation has been the administrative savings and the elimination of decentralised, labour-intensive processes of contracting and communicating with vendors, suppliers and carriers. Today, these changes are also viewed as a prerequisite and enabler of supply chain finance.

Automation allows for production of an approved invoice almost on a real-time basis, enabling the buyers to capture early payment discounts or, at the least, to streamline and extend payment terms across their supplier base.

In many cases early payment discounts offer the highest return on investment for the buyer, even when financed through borrowed money. At the same time, the same arrangement provides suppliers with much needed cashflow to run their businesses.

RISK MITIGATION Just as automation reduces human interference, the visibility gained from deployment of an automated supply chain platform allows for structured controls and the monitoring of compliance with internal policies. The ability to quickly approve invoices and advance payments further mitigates the risk associated with supplier resiliency. However, use of a collaborative platform from a third party does introduce a range of new risks, among them the security of confidential information, potential regulatory violations, and the deterioration in financial strength of the provider to ensure ongoing support. These risks can be mitigated by selecting a partner with a proven track record and financial stability.

SUPPLY CHAIN VISIBILITY A large number of multinational companies do not currently have centralised and consolidated reporting on supply chain partners and invoice data, which

Table 1: Process efficiency benefits

Value driver	Supplier benefits	Buyer benefits
Electronic communication	■ Secure transmission with no data loss ■ Improved delivery ■ Faster exception resolution ■ Improving company sustainability efforts and demonstrating commitment to climate change	■ Eradication of data input inaccuracy ■ Risk of fraudulent activity drastically reduced ■ Removal of month-end capacity issues ■ Reduction of manual processing time ■ Improving company sustainability efforts and demonstrating commitment to climate change
Electronic approval	■ Full visibility ■ Improvement in approval timeframes enabling potential invoice financing	■ Possible early payment discounts ■ Introduction of supply chain programme ■ Improved supplier relationships
Centralised payments	■ Improvement in cash forecasting	■ Reduction in bank charges and payment errors

Table 2: Supply chain visibility

Key supply chain decisions	Visibility required to facilitate decision-making
Vendor management – optimised rates, consolidation of spend, centralised resolution	■ Rates for each type of service offered by vendors in different regions ■ Number of vendors and their utilisation for each type of product/service
Payables/receivables management – standardisation of terms, financing	■ Size of spend/vendor ■ Consolidated view of current terms of the contract for type of product/service ■ Early payment discounts available ■ Improvement in approval timeframes enabling potential invoice financing
Inventory management	■ Lead times for shipments ■ Number of orders per destination ■ Average shipment cost/order
Sourcing/distribution model	■ Number of shipments per lane ■ Utilisation of carrier modes per lane

hampers their assessment of the savings potential.

The value derived from elimination of paper processing should alone justify solution investment. However, the real benefit is gaining visibility into supply chain activity across various business units and regions. This is achieved through centralised and normalised data capture that enables timely analysis and reporting.

The ability to look at the total spending activity globally helps identify opportunities for efficiencies from multiple sources including consolidation of vendors, standardisation of contract terms, benchmarking and negotiations for improved rates, consolidation of freight, optimised inventories, better contingency planning and the opportunity to redefine sourcing and distribution models.

REDEPLOYMENT OF RESOURCES Automating processes through a third-party technology solution is often seen as a process that will result in reduction of workforce. But in fact it is this automation that enables redeployment of human resources for work on more value-added tasks. The actual processing is often moved to a shared service centre, while the local procurement or centralised supply chain management organisations find themselves in possession of new and valuable information.

The availability of this information lets those freed resources conduct intelligent analysis of spend, benchmarking and service-level monitoring. Moving valued staff from mundane paper processing to strategic activities will improve the overall performance of the group and facilitate growth.

IMPROVED RELATIONSHIPS Electronic communication and automated invoice approvals speed error identification and resolution activities, giving suppliers an opportunity to rectify them quickly and receive payments on time. Payments are also processed automatically, greatly enhancing the supplier-buyer relationship by eliminating unpleasant conversations about lost documents or personnel absences that delay approvals.

Most importantly, automation and centralised capture of information enable structured contracts and performance evaluation as well as identification and escalation of issues before they become serious. Improved communication between buyers and suppliers has a highly positive impact on their relationships.

EASE OF IMPLEMENTATION AND UPGRADES When reviewing third-party solutions today, it is critical to ensure that the provider of choice has a proven ability to deploy complex solutions in a short period of time. It is just as important that the chosen third party has the resources and scope needed to upgrade its technology to newer standards so that users can maintain compliance with the ever changing regulatory framework.

Solutions such as J.P. Morgan's Order to Pay, Freight Payment, and Audit and Supply Chain Finance leverage existing electronic relationships with thousands of vendors around the globe in order to speed implementation for new clients.

FINANCE EXCHANGES In the future, we expect collaborative platforms, especially those offered by reputable and credible parties, to become a tool for mitigating cross-border and supply chain payment risks. Investors and financiers will use these platforms to determine the validity of the underlying relationships and transactions between buyer and seller.

These tools will help to drive risk-based pricing on typical supply chain financing products offered on the back of approved invoices. This financing can be extended to both the buyer and the seller markets.

CONNECTING THE PHYSICAL AND FINANCIAL SUPPLY CHAIN Intelligent invoice processing is transforming the relationship between the physical and financial supply chains, allowing these seemingly disparate functions to work in combination in achieving strategic developments.

With public support growing for greater sustainability efforts in the public and private sectors, the use of paper-intensive processing is rapidly becoming antiquated and unpopular. The reasons for change are compelling both from a business model as well as a corporate responsibility standpoint.

While companies around the world look at other funding techniques due to the restricted credit availability, changing their current approach towards invoice processing is a comparatively easy step forward on the path to working capital optimisation.

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