A solution bundle

ELECTRONIC INVOICING PROVIDES OPERATIONAL EFFICIENCY AS A CORE DRIVER AND FACILITATOR OF COMPREHENSIVE FINANCIAL SUPPLY CHAIN MANAGEMENT, AS **CHRISTIAN SCHAEFER** EXPLAINS.

Executive summary

Integrated financial supply chain management solutions offer corporates the potential for significant cost savings resulting from the replacement of paper-based processes by electronic means and the integration of new and traditional financial products.

Corporates today operate in a complex yet dynamic and inter-connected economy. To sustain economic performance in this challenging environment, organisations need to innovate continually to maintain their competitive edge – especially through effective working capital management, improved operating efficiencies, increased quality of information and maintaining sound working relationships with their trading partners.

In the content of financial supply chain management, paper is still the most common media used for corporate-to-corporate communication. This makes processes within the traditional financial supply chain inefficient, error prone and costly, with breakages that impede the flow of commercial and financial information. Consequently, key processes within the financial supply chain such as accounts payable and receivable are expensive to operate, lead to unfavourable payment terms and fail to deliver quality information to support decisions. Transitioning towards a paperless environment and integrating the information flows of commercial transactions, especially invoices, into financial processes continue to be a key objective (see Figure 1 The Financial Supply Chain in a corporate environment).

The key challenge to make electronic invoicing happen is to deliver solutions that add sufficient value to both sides of the equation, i.e. suppliers and customers. Technical integration; i.e. removing the paper, is one response to this challenge. Further benefits can be realised if additional financial products are linked and integrated into the offering.

SUPPLIER (BILLER) SERVICE The delivery and processing of paper invoices involves a complex set of procedures and controls that are expensive to operate. Costs are further compounded when exceptional processing has to be handled, for example, dispute resolution, unreconciled payment advices or unreconciled payments. These normally lead to delayed collections and high processing overheads, directly impacting an organisation's working capital and profitability.

Electronic invoicing if smartly implemented can streamline the invoicing and thereby accounts receivable process, providing faster invoice delivery, online dispute management, access to information, automatic reconciliation of invoices and payment advices against incoming payments. This results in lower transaction costs and accelerated cashflows through reduced days-sales-outstanding. Increased transparency and online access to quality information also affords corporates and their trading partners opportunities for improved communication as well as greater collaboration (see Box 1).

Box 1: Benefits of electronic invoicing solutions for suppliers/billers

- Delivers a streamlined accounts receivable process
- Faster invoice delivery
- Online dispute management
- Enhances working capital management through reduced costs and accelerated cashflows
- Automated reconciliation
- Integration of digital signatures (where applicable) in order to meet the requirements for VAT deductible invoices

Box 2: Benefits of electronic invoicing solutions for buyers/payers service

- Online dispute management
- Streamlines the accounts payable process
- Realises cash discounts
- Reduces service centre costs
- Improves reconciliation rates

Although the benefits of electronic invoicing are clear to most corporates many of them struggle in implementing efficient solutions. The challenge in that respect is to establish a solution that is supported by most of the trading partners, that meets the requirements of tax authorities and that is easy to implement and maintain.

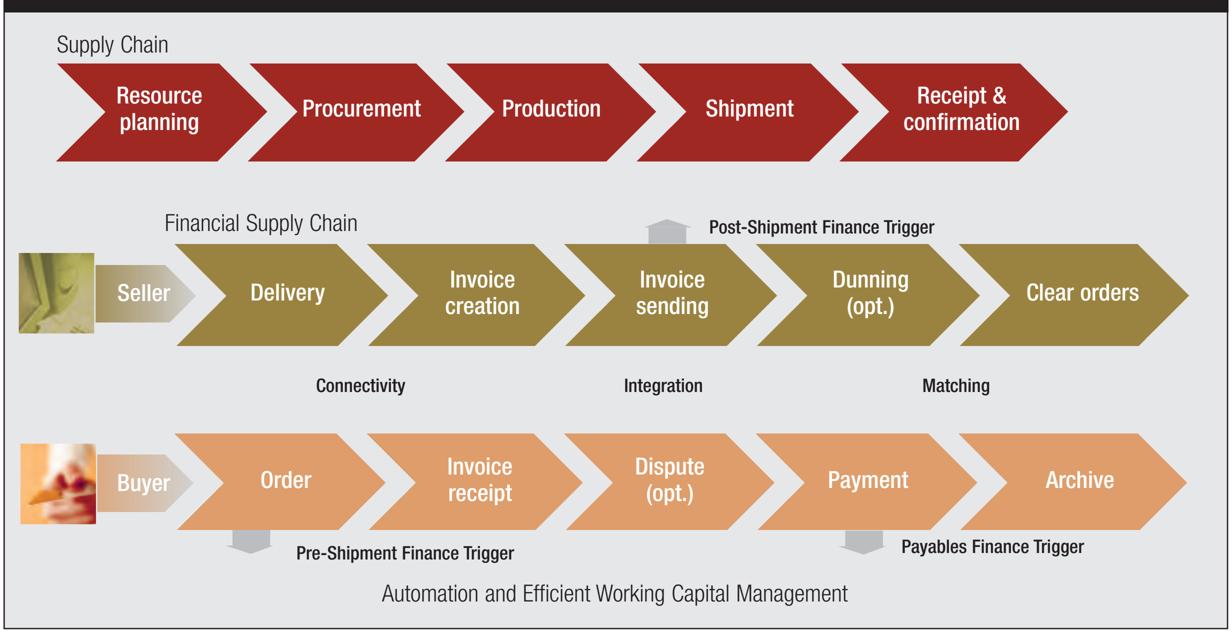
BUYER (PAYER) SERVICE The receipt and processing of paper invoices for payment constitutes the highest overhead within the accounts payable function. The process is laden with cumbersome paperwork and contradicts corporates' desire to improve their working capital management and operating efficiency. To enable clients to realise their goals, corporates have to establish smooth/electronic flows of commercial and financial information throughout the organisation's financial supply chain. This delivers not only streamlined processes but also greater visibility and control over cashflows. Various manual processes – from data entry, reconciliation, dispute handling and obtaining approvals, to preparing invoices for payment – result in costly operations and delayed payments. This delay can negatively impact a company through the loss in cash discounts and deteriorating supplier relationships.

TRANSITIONING TOWARDS A PAPERLESS ENVIRONMENT AND INTEGRATING THE INFORMATION FLOWS OF COMMERCIAL TRANSACTIONS, ESPECIALLY INVOICES, INTO FINANCIAL PROCESSES CONTINUE TO BE A KEY OBJECTIVE

Electronic invoicing services enable corporates to automate invoice data capture and the subsequent reconciliation. The key capabilities for online dispute management, initiation of electronic payment advices as well as payments, help achieve significant efficiencies and financial benefits in the accounts payable process (see Box 2).

TRADING PARTNER ON BOARDING SERVICE Having the trading partner's buy-in is key to the success of any electronic invoicing solution. State of the art solutions such as db-eBills offer a bundle of means required to integrate the wide spectrum of requirements of corporates' trading partners of any size and industry. Working with a consolidator approach helps in so far as the solution implemented can be re-used by your partners in the context of their own customer/supplier space. Corporates which have a bank suporting them on the on-boarding process are provided with the benefit of leveraging additional and established relationships to convince their business partners (see Box 3 overleaf).

Figure 1: The Financial Supply Chain in a Corporate Environment



AT THE FOREFRONT OF DEUTSCHE BANK'S FINANCIAL SUPPLY CHAIN MANAGEMENT SOLUTION IS DB-EBILLS.

SUPPLIER FINANCING SERVICE Access to short-term liquidity in the market is generally expensive and requires detailed and complex decisions. With Deutsche Bank's supplier financing services, corporates can effectively utilise their accounts payable to attain additional liquidity. This service leverages a company's solid credit rating to obtain funds at competitive rates that can then be offered to selected suppliers in return for extended payment terms. This results in the better utilisation of cash within the organisation. Suppliers can also benefit from having the choice to accelerate their accounts receivable at favourable discount rates to generate timely cashflows, creating a win-win situation for both parties in the trading relationship.

The benefits of the supplier financing service are that it:

- reduces short-term financing costs
- provides suppliers with improved cashflow predictability and control over their financing decisions

Deutsche Bank's financial supply chain management solution is a complete solution package that leads clients through the process from building the business case to overcoming the deficiencies of traditional processes and technologies.

Box 3: Benefits of on-boarding service

- Caters to organisations of all sizes
- Utilises internet-based tools
- Makes your partner's resources and relationships available to convince your business partner

While Electronic Invoice Presentment and Payment (EIPP) requires a comprehensive technology backbone it becomes more and more evident that technology is not enough (see Figure 2 Financial Supply Chain – Consolidator Model). State of the art solutions combine the technology, with a full service on business partner adoption, and the linkage of financial products into a solution bundle that offers both suppliers and customers the desired efficiency gains with a minimal involvement of internal resources.

At the forefront of Deutsche Bank's financial supply chain management solution is db-eBills. Using flexible connectivity and mapping technology, db-eBills can easily and securely connect to accounts payable and receivable systems to exchange and process invoice data and financial data. db-eBills provides additionally a complete set of means to accelerate the adoption of trading partners to the platform such as a front-end internet application. This enables the platform to support the delivery of integrated electronic invoice information and financial services to accommodate the needs of any organisation, irrespective of size, effectively creating a shared value network interlinking trading parties.

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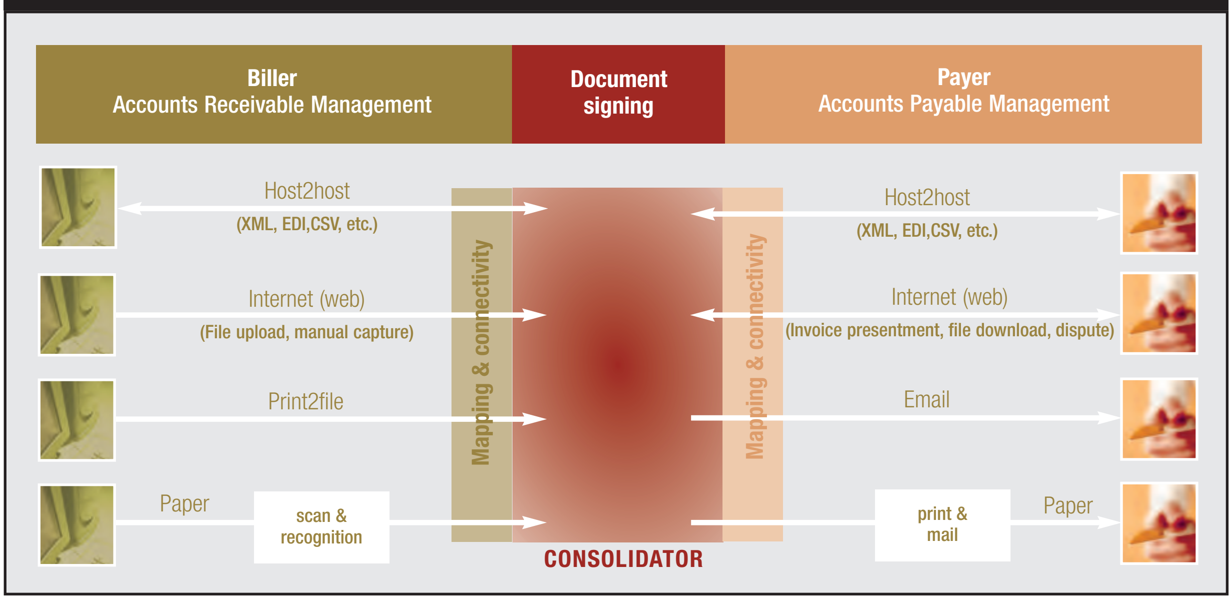
Figure 2: Financial Supply Chain – Consolidator model



A business case for EIPP

LIKE EVERY PROJECT REQUIRING HUMAN AND CAPITAL INVESTMENT, THE INTRODUCTION OF EIPP NEEDS TO BE SUPPORTED BY A SOLID BUSINESS CASE TO MAKE IT TO THE TOP OF THE CORPORATE AGENDA. HERE BELOW IS A TYPICAL FRAMEWORK THAT COMPANIES CAN USE TO THOROUGHLY ASSESS THE OPPORTUNITY OF IMPLEMENTING EIPP.

QUANTIFICATION OF BENEFITS

Replacing paper with electronic data has deep ramifications on many aspects of the business. In order to understand the full potential of an EIPP project, all business benefits should be spelt out in three main categories: hard direct, hard indirect and soft.

The **hard direct** benefits are the quick-wins, namely immediate cost savings that can be achieved as soon as e-invoicing goes live. These include the elimination of paper archives for the payer, or stamps and printing materials for the biller. The positive effects on working capital also belong to this category: the current, lengthy purchase-to-pay cycles cause European corporates to lock-up an average amount of €250bn in outstanding invoices. With EIPP accelerating the invoice approval and payment tenfold, payers can reap the benefits of early payment discounts from suppliers, or rather extend the payment terms even further and leverage the supplier financing options that banks offer in combination with EIPP. Either way, the billers gain faster access to cash.

The largest saving opportunity for a company falls within the **hard indirect** category. This derives from all the process efficiencies that EIPP enables, but can only be obtained if the AR/AP departments simplify and rationalise the way they operate. According to the European average, the full cost per invoice is between €5 and €8, with one full-time employee required every 10,000 invoices. EIPP helps eliminate exceptions, speed up disputes, automate reconciliation, and in general reduce the end-to-end processing costs, often well above 50%.

The **soft** benefits are all those positive impacts on the organisation that are hard to quantify. A short list of the most typical ones should include improved customer/supplier relationship, more accurate audit-trail, better cash forecasting and access to a new range of banking options.

RISK ASSESSMENT

VAT compliance and IT integration are two main risk areas that an EIPP project has to mitigate. The best e-invoicing providers work directly with the company's legal and IT departments, certifying the conformity of the current solution and ensuring it can be upgraded to accompany the evolution of regulations and technologies.

ALTERNATIVES

Before investing, companies should look at all possible options. The most typical alternative to EIPP is building point-to-point EDI connections, or in developing a proprietary solution. With few exceptions, both choices entail higher costs and risks than outsourcing to a specialised provider.

FINANCIAL ASSESSMENT AND CONCLUSIONS

The business case should end with an accurate calculation of the return on investment (ROI), considering the fixed and on-going costs of EIPP (implementation, licences, transaction fees) and pondering best and worst-case scenarios. Even using conservative estimates, a good EIPP project usually pays off within 12 months.