A MARRIAGE MADE IN HEAVEN

The synergy between electronic invoicing and supply chain finance could make them both more appealing to treasurers. Lesley Meall explores their potential

Even the brightest, shiniest idea can be tarnished by complexity. If something is too difficult for most people to understand, then most people won't try to understand it. Treasurers, of course, are not most people. You are masters and mistresses of complexity: it is in your blood; it courses through your veins. But you may still sigh at the prospect of wading through the treacle that surrounds (and often separates) the bright shiny islands of electronic invoicing (e-invoicing) and supply chain finance (SCF). Just don't let it stop you from making the journey. It could be well worth the effort, because when these two are combined, they can offer treasurers the opportunity to improve liquidity and operational efficiency, and reduce risk.

Considered separately, each already has a great deal to recommend it. Take e-invoicing. The potential business benefits seem clear – so clear, that even governments can appreciate them. "E-invoicing can bring significant savings and make life easier for governments and for the thousands of businesses active in the European marketplace," says Michel Barnier, the European Commissioner responsible for internal market and services. "Switching from paper to fully automated invoicing can cut the costs of receiving an invoice from €30-€50 to €1," he adds, which could save the governments of Europe an estimated €2.3bn a year and save its businesses €18bn.

Automation and efficiency

Starting to make this transition – with just some of its suppliers – has already had a big impact at the Swiss power and utilities giant ABB. It used to process most of its annual 380,000 invoices manually – keying them into the purchase invoice ledger, then routing them to recipients for checking and approval before sending them to accounts payable. Invoice automation has changed this. "Time spent on the initial processing of all purchase invoices has been more than halved, as the invoice data is captured electronically," says Klaus Martin, accounts payable manager at ABB. There have been other productivity savings, too. Because ABB is able to automatically match invoices and purchase orders, this can be done automatically around 60% of the time.

Although e-invoicing has been around for decades and some organisations have made a success of it – as buyers, suppliers and providers of software and services – it has not benefited business as much as it could. Over the past two years, its accessibility and appeal have broadened. E-invoice volumes have grown annually at 20-30%, and this year around 20 billion bills/invoices will be sent electronically globally (5.5 billion in Europe). Drivers include governments legislating to encourage adoption (see European Legislation box, right) and mandating e-invoice use in public-sector transactions, the increased use of online trading networks, and cloud-based e-invoice conversion services, as well as reduced appetite for financial risk, constrained liquidity, minimal returns on cash for business and the evolution of SCF.

New routes to supply chain liquidity

SCF isn't new either. But it is going through a period of accelerated evolution. Banks are gradually aligning the businesses of cash, trade and SCF to improve working capital and risk management services. Almost 90% of banks now regard SCF as a 'need-to-have' financial product for corporate buyers, according to *Forging new links*, a study from research and advisory firm Demica. It also found that average annual rates for SCF use have grown by 30-40% at major international banks. But banks are not the only ones developing and marketing SCF programmes; non-financial companies offer a growing alternative to bank financing for the supply chain – and their business models mean that they do not need to restrict SCF to high-volume, high-value transactions.

The open platform PrimeRevenue.com is one of various non-bank SCF specialists. It supplies billions in financing to thousands of suppliers in dozens of countries, by providing tools to optimise cash flow and unlock liquidity in the supply chain (with support from approximately 40 banks). Using PrimeRevenue has been a boon for WM88, a French importer of home-decoration items. "We used factoring previously," says Bernard Soyer, accountant at WM88. It was expensive and WM88 could access only 90% of the invoice value up front, as the rest was used to offset bank risk. "We now receive full payment at a much lower rate," says Soyer, by selling customer-approved invoices online. An 'auto-trade' facility enables WM88 to do this at a predetermined frequency without logging in manually to perform the trades.

The network effect

Economies of scale traditionally favour large organisations rather than smaller and medium-sized entities, but advances in technology and changing business practices mean that the benefits of 'the network effect' can now be enjoyed by even the smallest organisation. As more and more organisations adopt e-invoicing and SCF, the value of both increases significantly. To paraphrase Metcalfe's Law, as more enterprises become connected to and through a system, the greater its utility, and the more useful the network becomes, the more people connect to it. E-invoicing is approaching this point and SCF is on its way, and the synergy between them means that they can each strengthen the business case of the other.

Exploiting this synergy requires the collaboration of buyers, suppliers, platform providers and banks – and many strategic relationships attempt to ease this process. The investment vehicle Tungsten may go even further. It was recently set up to buy the e-invoice platform OB10 and a UK bank; it has agreed five-year licences for spend analytics software and announced its intention to float on the Alternative Investment Market. The components in the deal are inter-conditional, so it's complex. But it will create a global network of hundreds of buyers and hundreds of thousands of suppliers on an integrated and automated platform that could speed up and simplify invoice settlement and transform financial aspects of the global supply chain. Treasurers may want to watch this space.

Lesley Meall is a freelance journalist specialising in finance and technology

WHAT IS E-INVOICING?

It's the electronic transfer of billing and payment information between buyers and suppliers. This includes e-invoices that have been structured using formats such as electronic data interchange and XML. These can be exchanged and processed automatically, with data moving between software programs without human intervention. It also includes unstructured e-invoices that have been created as PDF documents (see European Legislation box below).

WHAT IS SCF?

SCF has multiple meanings. It can be used broadly to encompass everything that contributes to optimising working capital bound up in the supply chain: all the buy-side and supply-side solutions, services and processes for managing timely payments to suppliers and receipts from customers. SCF is also used in a narrower sense, as a product definition, to describe reverse factoring/ approved payables.

EUROPEAN LEGISLATION

Under new European Union (EU) VAT rules (Directive 2010/45/EU) paper invoices and e-invoices must be treated equally. Most e-invoices are emailed as PDFs, which cannot be processed automatically, but cloud providers will convert a supplier's PDF invoices into structured XML messages, and then email them on to customers for automatic processing by applications such as accounting software.