Treasury Management

ELECTRONIC INVOICING AND PAYMENT:

Best practices and strategies for recruiting suppliers

A Treasury Management White Paper

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Executive Summary

Businesses in the United States exchange more than 13 billion invoices and more than 25 billion pieces of paper each year[1]—but the impact isn't simply environmental. An accompanying waste of business resources occurs in every step of a manual procure-to-pay (P2P) process.

Electronic invoicing and payment solutions have proven their ability to dramatically reduce the cost and inefficiencies associated with paper P2P transactions. Methods that automate the entire P2P process, including integration of accounts payable (AP) and accounts receivable (AR) systems, hold tremendous potential. Adoption of these methods, however, has been slow.

According to a May 2009 study by the Aberdeen Group[2], nearly 93 percent of companies still receive and process invoices manually. This is in spite of the fact that the "top-performing" 8 percent of companies that have converted to automated processes are achieving cost savings of 91 percent and are reducing the time it takes to process a single payment by 92 percent. What keeps companies mired in manual systems?

The pace of conversion has been particularly slow not so much due to the cost of technology, but because of the difficulty of recruiting suppliers to participate—and the amount of effort required to bring them on board.

A supplier's willingness to participate often hinges on the buyer's ability to demonstrate a compelling value proposition. Whether you're trying to convince outside suppliers or internal collaborators about the value of an integrated electronic solution, it's important to have a partner that can help you sort through the options available and implement a solution that benefits all parties.

This paper will provide an overview explaining:

- Costs and challenges of paper-based processes
- Benefits of electronic invoicing and payment options from the perspective of both buyers and suppliers
- Strategies and best practices that you can adopt to recruit and bring suppliers on board

[1]PayStream Advisors, Paystreamvoices.com, "Environmental Impact of Electronic Invoicing: Go Green. Save Green," May 29, 2009
[2]Aberdeen Group, "E-Payables: Electronic Payments Reduce Your Payment-Processing Costs," May 2009

PAPER INVOICING AND CHECK PAYMENTS: PAINFULLY EXPENSIVE FOR BUYERS AND SUPPLIERS

When paper transactions were the only way of doing business, nobody thought much about the cost. But in recent years, buyers and suppliers have seen the expense and burden of manual processes increase exponentially.

Challenges for buyers

For buyers, the costs and inefficiencies associated with manual, paper-based AP processes and payment methods include:

- Rising costs for printing and mailing paper checks
- Increased incidence of check fraud and higher costs for stop payments and replacement checks
- Large amount of human capital required to deal with a high number of manual entries, error corrections, inquiries, disputes, and exceptions
- Higher cost for goods and services associated with the supplier's cost of capital (A buyer's ability to negotiate discounts for early payment can significantly affect the cost of goods and services.)

Corresponding challenges for suppliers

Suppliers currently invest a huge amount of time and money in preparing, tracking, and reconciling their accounts receivables. Invoices mailed to buyers at one location are physically routed for approval and payment processing—making it easy for invoices to get lost and difficult for suppliers to know where their invoices stand.

Manual entry into AP systems results in errors that make it time consuming and costly for suppliers to reconcile payments with invoices. As a result:

- Cash forecasting is hindered by uncertainty, increasing the amount of working capital tied up in the order-to-cash cycle.
- Expensive financing options, such as factoring and asset-based lending, are required to address cash flow shortages.
- Customer relationships are strained by frequent inquiries to the buyer's AP help desk.

In this environment, electronic invoicing and payments can provide genuine cost savings and efficiencies for buyers and suppliers alike.

According to the 2008 Member Benchmarking Survey for the International Association of Accounts Payable Professionals, e-invoicing reduces the average cost per invoice in the United States by $2.73—down to just $2.67 versus $5.40 for paper.

Dramatic savings in time and money

A 2009 study by the Aberdeen Group, titled "E-Payables: Invoice Receipt and Workflow," showed even more dramatic savings for European buyers, both in terms of cost and processing times:

- The top 20 percent of aggregate performance scorers in the study reduced their average cost per invoice to just $2.18, and they cut the average number of days needed to process down to 2.8.
- The middle 50 percent spent an average of $9.38 and 15.8 days per invoice.
- The bottom 30 percent spent an average of $34.11 and 35.1 days per invoice.

For many buyers, the business case for streamlining processes and reducing costs is compelling—but they face resistance from internal partners and suppliers alike.

Internal partners may be reluctant to expedite payments because they think they'll lose the ability to "play the float"—but it could be that a company's ability to negotiate terms and reduce its suppliers' cost of capital can result in cost savings that outweigh the advantages of short-term investment income.

In addition, buyers find themselves competing for scarce resources, both within their own AP groups (where the economic downturn has everyone scrambling to do more with less) and within information technology (IT) organizations (where it can be a struggle to make streamlining initiatives a priority).

There's also a fear of investing in a solution that suppliers won't use—and that's a genuine source of concern. Without seamless functionality, a simple on-boarding process, and the ability to invoice multiple buyers through a single platform, many suppliers will be reluctant participants.

AUTOMATED INVOICING AND PAYMENT SOLUTIONS: BENEFITS FOR BUYERS

As the cost of everything from stamps and checks to employees and credit continues to rise, the advantages of automated P2P solutions become increasing clear. Here are just a few of the benefits you should consider:

Speed. Electronic invoices and automated AP systems speed the review process and reduce the turnaround time for payment approval. Fewer employee hours are required to input and manage the AP process, allowing you to reallocate employees to more strategic activities.

Efficiency. Automated AP reduces the amount of time and number of employee hours you need to invest in responding to supplier inquiries. Automated or self-service technologies that allow suppliers to investigate invoice status 24/7 significantly reduce the number of calls you'll have to handle.

Accuracy. A large percentage of disputed invoices turn out to be the result of simple clerical errors that occurred during manual entry of invoice information into AP systems. Electronic invoicing reduces those errors, thus cutting down on the enormous amount of time and energy employees currently invest in investigating and resolving disputes.

Control. Whether you want to negotiate discounts for early payment or extend your payment terms, automated AP systems give you greater visibility into your payables and better control of your disbursements, so you can make strategic decisions about which payments to send and when to send them.

> Checks are the No. 1 target for criminals committing payments fraud. Electronic payments are more secure, not only because they offer more sophisticated fraud control but also because they typically provide fewer opportunities for fraud.

How you can benefit from electronic payments

If you're still paying by check, you're paying significantly more to accomplish that function than you would if you were paying electronically. Here's why:

E-payments cost less. Electronic payments, including ACH and purchasing card payments, are significantly less expensive than paper checks. They also offer:

- **Improved cash forecasting.** ACH payments, for example, post directly to accounts and settle within one to two business days, so neither you nor your supplier needs to speculate about when paper checks will clear.
- **Early payment discounts.** Electronic payments make it easier to take advantage of vendor early-pay discounts, while avoiding late payments and related fees.

E-payments are more secure. Checks are the No. 1 target for criminals committing payments fraud. Electronic payments are more secure, not only because they offer more sophisticated fraud control but also because they typically provide fewer opportunities for fraud.

For example, an ACH transaction with straight-through processing and no physical document to corrupt is more secure than a paper check.

According to the 2009 Payments Fraud and Control Survey by the Association for Financial Professionals, the growth in check fraud has far outpaced the growth of electronic payments fraud. Of the organizations that experienced fraud attempts in 2008:

- Eighty-two percent reported more check fraud—while just 14 percent reported more ACH fraud.
- Nine out of 10 organizations (91 percent) that experienced attempted or actual payments fraud in 2008 were victims of check fraud.

How you can benefit from P2P solutions

P2P solutions offer numerous benefits, including:

Stronger business relationships. Once suppliers are on board, they typically appreciate the ease of invoicing, the speed and reliability of payment, and the ability to explore invoice status without having to make numerous calls.

Businesses that can seamlessly exchange electronic invoice and payment information are more apt to do business with each other. All other things being equal, buyers and suppliers will gravitate toward partners that use compatible types of technology.

Increased visibility. When your invoices are 100 percent visible to you and your suppliers, it's much easier to:

- Answer internal and external queries about invoice status and resolve disputes
- Perform accurate accrual processing of unpaid but valid invoices
- Streamline month-end closing

"Greener" business practices. It's estimated that cutting the amount of paper that businesses currently use for invoicing by half (using 12 rather than 25 billion pieces of paper annually) would:

- Save nearly 1 million trees and 240,000 tons of paper each year
- Reduce our carbon footprint by almost 250,000 tons
- Save an amount of electricity equal to that used by 10 million U.S. households[3]

[3]PayStream Advisors, Paystreamvoices.com, "Environmental Impact of Electronic Invoicing: Go Green. Save Green," May 29, 2009

ELECTRONIC INVOICING AND PAYMENT SOLUTIONS: BENEFITS FOR SUPPLIERS

Here's a list of benefits you can use to migrate your suppliers to electronic invoicing and payments. Many suppliers have resisted the idea of moving away from a system of invoicing customers and accepting payment that's basically considered not broken.

The process of manually generating and mailing invoices, applying cash payments, reconciling invoices, resolving disputes, and pursuing collections is a slow, error-prone, and inefficient use of both human and financial resources.

Yet the reality is that the cost of the traditional way of doing business is becoming increasingly prohibitive—and may soon put suppliers at a competitive disadvantage. Here are just a few of the benefits suppliers could enjoy by doing business electronically:

Supplier benefits of electronic invoicing

The process of manually generating and mailing invoices, applying cash payments, reconciling invoices, resolving disputes, and pursuing collections is a slow, error-prone, and inefficient use of both human and financial resources.

With electronic invoicing, suppliers enjoy:

- **Increased efficiency.** Invoices arrive sooner and are frequently paid faster, because buyers can access and route invoice information more quickly for approval. According to Ariba, an award-winning spend management company, suppliers using its integrated network have reduced days sales outstanding from between 2 to 5.6 days.
- **Visibility and control.** Invoice information flows seamlessly through buyers' systems, reducing both manual entry errors and the resulting AP exceptions. Online vendor portals give suppliers the ability to upload, view, and track invoices in real time. Some portals send suppliers an automatic notice once invoices are approved.

  This real-time visibility into the invoice approval and settlement process allows suppliers to perform month-end reporting and reconciliation without having to interrupt buyers' AP staff.
- **Reduced customer service cost.** From paper costs and postage to employee hours spent reconciling payments with invoices and following up on delinquent accounts, electronic invoicing significantly reduces the cost of customer service.

Supplier benefits of electronic payments

Whether suppliers choose to accept ACH, purchasing card, wire transfer, or T&E cards, electronic payments offer significant advantages over paper checks:

- **Faster, less expensive settlement.** ACH payments post directly to accounts and settle within one to two business days, so there's no check float and suppliers won't need to guess when paper checks will clear.
- **Lower cost of capital.** With greater visibility into when they'll be paid, suppliers can reduce the amount of working capital tied up in the order-to-cash cycle.

  Need cash quickly? A supplier's ability to offer buyers discounts for expedited payments and to accept those payments electronically decreases their dependence on costly financing options to address short-term cash flow shortages.
- **Enhanced cash flow management.** Increased visibility into remittance information not only lets suppliers forecast payments more effectively but it also lets them take better advantage of automated cash management systems. Cash arrives sooner and can be automatically swept into higher-yield investment accounts if desired.
- **Stronger customer relationships.** Buyers appreciate supplier willingness to work with them to reduce their internal costs and achieve internal goals.

  As more and more suppliers comply with buyer requests, suppliers that aren't on board will find themselves at a competitive disadvantage compared with suppliers that have already migrated to that buyer's system.

BRINGING SUPPLIERS ON BOARD: A MULTIFACETED APPROACH

Best practices

The way in which you roll out any new electronic initiative will have a big impact on the numbers of suppliers that participate. Here are a few best practices to consider as you implement your program:

- Recruit an executive sponsor vested in and willing to promote the transition. Before you engage with suppliers, make sure everyone in your organization understands what you're doing and why.
- Set measurable goals (e.g., "Convert 90 percent of suppliers within three months") versus vague ones ("Let's see which suppliers are interested").

- Make a clear case for the potential return on any investment of time, money, and IT resources made to streamline your invoicing and payment systems.
- Develop or buy into a secure, "open" technology so that suppliers can engage with a number of buyers from the same platform. Provide multiple, easy-to-use remittance options.
- Establish fraud protection measures. Clearly, fraud protection is essential for any kind of electronic or paper-based payment system. Consult with your banking partner for information on the latest and most secure technologies.
- Provide suppliers with incentives (e.g., "We can pay you faster if you come on board").

Overcoming the top 5 supplier objections

Before approaching your suppliers, be prepared to answer the five most likely objections they're going to offer:

Objection #1: "The technology is too complicated; it seems like it would be a hassle."

Response: Explain the benefits (take advantage of the points outlined in this piece)—and make sure the platform you offer is both easy to use and lets the supplier serve multiple vendors.

Objection #2: "I can't justify the cost."

Response: You can't afford to ignore the cost savings (see previous section).

Objection #3: "I like the speed of e-payments, but I don't want to give out my account number."

Response: You give out your account number on every check you write—and checks don't offer the sophisticated fraud protection available with e-payment technology.

Objection #4: "I don't want to overhaul my invoicing process."

Response: You don't have to. You can still send invoices to us the way you always have.

Objection #5: "I'm concerned your remittance information will arrive in a format I can't read or use."

Response: Remittance formats are becoming increasingly standardized and easier to use and read. (Be sure the partner you select can support the widest possible variety of formats.)

A step-by-step process

Consider the following steps as you develop a strategy for bringing suppliers on board:

Step 1 **Make a list of the most likely participants.** Work with a clean list of the suppliers you decide to target. (If you have one supplier listed six different ways, you will duplicate effort and skew your results.)

Step 2 **Develop a communications plan.** Communicate with your suppliers early and often. Focus on benefits to the supplier's organization rather than your own. Use a variety of traditional and e-marketing approaches—combining e-mail blasts and direct mail as well as letters and calls.

Step 3 **Make activation easy for suppliers.** Leverage online activation and account management tools from your partner. Integrate your online tools with your e-marketing materials so your suppliers can "click here" to get started and take advantage of self-service tools on an ongoing basis.

Step 4 **Validate all information.** It's important to validate the information you get from your suppliers at activation and whenever critical changes are made.

INVESTING IN P2P TECHNOLOGY

A wealth of studies and surveys reaches the unanimous conclusion that automated P2P systems are not just where the industry is heading—that's where companies that want to stay competitive must go.

Making the transition is an investment that pays for itself in transactional savings alone. It then goes on to yield significant benefits in terms of productivity, profitability, and customer loyalty.

Picking the right technology for your organization and your trading partners is key. Picking the right bank partner is equally important. Wells Fargo Treasury Management has the experience, expertise, and commitment to support you in selecting and launching the best P2P solutions for your organization—and then helping you maximize the effectiveness of that investment.

If you're ready to explore the benefits of electronic invoicing and payments, we're here to help. Contact your Wells Fargo or Wachovia treasury management representative today.