Perspective

Supplier Network Speeds E-Invoicing Adoption, Increases ROI

Business Challenge

E-invoicing has emerged as the essential tool for automating and integrating invoice receipt and payments – overcoming paper-based methods. Yet, the time and effort required to enroll a critical mass of suppliers into the program can be a major obstacle to success. Selecting an e-invoicing solution provider with a large number of compatible suppliers already enrolled in the e-invoicing "network" can speed adoption and increase your program's return on investment.

Benefits of the New Approach

Case for Action

In the most recent installment in the Invoice Reconciliation and Payment Series, *The E-Invoicing Solution Selection Report*, Aberdeen Group finds the importance of invoice reconciliation and payment is on the rise. Early adopters of modern e-invoicing solutions are now offering relevant success stories. Their strategies and performance benchmarks reveal results that justify investment in automation solutions and meet both accounts payable's functional objectives and broader corporate needs.

The use of electronic integration, messaging, reconciliation, and reporting solutions in accounts payable reduced transaction cost between 63% and 67%. Technology not only reduces people and processing costs, but streamlines decision making and positions the company to capture substantially higher discounts.

Table 1: Typical Benefits of Invoice Reconciliation and Payment Automation

Improvement Area	Performance Impact
Invoice Processing Cost	Reduced 30% to 60%
Processing Cycle Time	Reduced 65%
Accounts Payable Labor	Reduced 25% to 40%
On-time Payment Percentage	Improved from 15% to 59%
Discounts Earned	Increased up to 500%

Source: Aberdeen*Group*, January 2006

Addressing Central Business Challenges

Current business dynamics are providing accounts payable teams a golden opportunity to demonstrate the value their process and expertise can deliver. Aberdeen research confirms today's business drivers are strongly aligned to responsibilities and performance improvements in accounts payable, including:

Announcement

Read *The E-Invoicing Solution Selection Report: Leading an Accounts Payable Extreme Makeover* at Aberdeen*Access.*

- Contributing to cost reduction goals
- Maximizing liquidity to improve near-term financial performance
- Responding to regulatory pressures
- Preventing fraud.

Regardless of size and industry, growth and cost-conscience businesses are viewing accounts payable transformation as integral to future success. Increasing cost pressures in the fast-moving retail, consumer packaged goods, manufacturing, and transportation industries are challenging corporations to rigorously wring out every potential dollar of cost to maximize profits. The rapidly expanding healthcare, financial, and telecommunication industries are faced with different challenges –gaining control over third-party payments to manage cash flow, ensuring unique reporting requirements are met, creating an accurate view of indirect expenditures, and most importantly, improving the productivity of scarce people resources.

Market Reach: The Strength of E-Invoicing

Aberdeen anticipates most leading companies will implement a portfolio-like approach to AP automation that leverages the functionality, costs, and deployment advantages of three main solution sets, each with roots in market scale and reach:

- XML and imaging-based electronic invoicing
- Card-based solutions
- Electronic settlements platform

Lessons from the Past

Despite the strengths and clear functional return on investment statistics now widely available (see *The E-Invoicing Solution Selection Report*), winning the case for technology remains difficult for accounts payable teams.
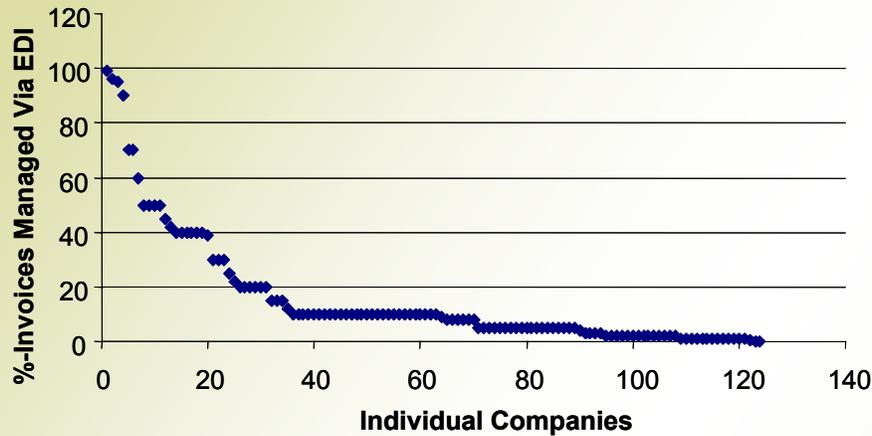
Under further scrutiny, history reveals some of the "flies in punch bowl" that might be shaping perceptions of e-invoicing solutions for executives and businesses.

The lackluster adoption of EDI might be the cause of ill will. For 63% of the companies in this study, enterprise-level financial systems satisfactorily provide the transactional backbone for the invoice reconciliation and payment process. However, despite heroic efforts and mountains of investment promises, only 17% of the companies indicated that invoicing activity is currently being managed via EDI. The vast majority of these cases reported disappointing volumes of less than 20% of the applicable transactions being managed overall (Figure 1).

The blame for these poor adoption rates are attributable to a painful supplier-by-supplier deployment model that large and mid-size companies were required to take with EDI. The process was slow and inflexible.

However, certain benefits of EDI should not be overlooked. EDI systems have added significant value in supply chain data management areas. Specifically, electronic receipts settlement (ERS), in concert with legacy financial and procurement transactional systems, has been quite successful in providing an electronic two-way match with supplier data and other reconciliation attributes, often eliminating the need for an invoice altogether.

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260 Franklin Street
Boston, Massachusetts 02110-3112

Telephone: 617 723 7890
Fax: 617 723 7897
www.aberdeen.com

Figure 1: EDI Deployments and Adoption Level

Source: Aberdeen*Group*, January 2006

In fact, E-invoicing applications are often enveloping heritage VPN-EDI to provide broader, lower-cost information exchange or complementing supply chain with financial settlement. EDI successes are still typically only found in business-to-business, recurring transactions in discrete manufacturing settings. As Aberdeen has previously determined, non-purchase order purchases exceed traditional based orders in virtually all industries.

In the craze of dot-com days, a "virtual" trading marketplace sprouted up around specific industries and leading applications. Many of the less viable marketplaces slanted the majority view of marketplaces to the detriment of several strong industry and e-procurement buyer-supplier networks.

In several cases, catalog hubs have reached critical mass and are demonstrating their ability to minimize the cost of servicing buyer-seller interactions. Adoption and clear value of these remaining networks has taken 10-15 years and all are limited certain expenditure categories. More recently, most are introducing automated invoicing, albeit within the confines of category or vertical-specific transactions. As in the EDI instances, coverage is limited and typically does not address non-catalog, non-purchase order, and decentralized purchases—the real head-ache of accounts payables.

Focusing on the Network to Speed E-Invoicing Adoption

Aberdeen Group's first-hand examination of the deployment approaches, timelines, and communications at more than 24 companies has identified supplier enrollment and the on boarding process as a critical success factor that can make or break an e-invoicing program.

The means to ensure supplier participation in your e-invoicing program inherently are tied to the selection of the e-invoicing provider. Strong e-invoicing solution providers must not only bring the underlying technology, but must also bring one core competency critical for success.

Extensive Supplier Network and Processing Hubs

The successful adoption of e-procurement has created virtual networks of buyer and sellers. These e-commerce processes are being expanded by providers such as Ariba, Perfect Commerce, and PurchasingNet to complete the procure-to-pay loop with invoice receipt, and, in some cases, settlement.

The most prominent network, the Ariba Supplier Network (ASN), has over 125,000 suppliers enrolled and is aggressively focusing its effort on increasing the percentage, currently 5% – 6 %, of network supply members processing invoices via the network. Ariba analysis suggests that most buyers may already have up to 35% of their suppliers already enrolled in the network.

Table 2: Reported E-Invoicing Network and Typical First Pass Coverage

Sample Provider	Number of Suppliers Enrolled	Initial Coverage
Ariba	125,000	5 - 6%
Harbor Payments	147,000	13 - 20%
Quadrem	15,372	65 - 90%

Source: Aberdeen*Group*, January 2006

E-invoicing's increasing versatility in terms of invoice receipt modes and formats (.xml, .CSV, EDI, fax or paper) has made the applications provided by companies such as Direct Commerce, Harbor Payments, and Xign capable of supporting purchasing order and non-purchasing order transactions in processes acceptable to large and small suppliers. Harbor Payments is a prime example of viral growth that a versatile e-invoicing solution paired with a corporate payments platform can have. By providing multiple electronic, fax, and paper-based receipt options, the Harbor Payments network of suppliers currently supporting invoice receipt from 151,200 suppliers. Based on implementation statistics shared with Aberdeen Group, each new customer finds 13% to 20% of their suppliers already transacting with the network.

On the flip side, the receipt and payments platform is currently being adopted by several companies to address B-to-B and B-to-C billing and collections processing. This indicates not only a greater return on the IT investment, but also growing acceptance of ACH/EFT settlements by corporate treasury teams as a sound response to SOX 404 and SOX 409 compliance requirements. These solutions provide the entire corporate payment platform the scale, controls, and data collection capabilities across company disbursements such as, HR-related payments, taxes, warranty claims, dividend and international account transfers.

Marketplaces Keep an Iron in the Fire
Although first to market over two decades ago, recently a few marketplaces have announced advanced Invoice Reconciliation and Payment capabilities such as inter-company workflow with notifications, as well as automated reconciliation and settlement capabilities. Most notably, Quadrem, which provides integrated trade management in the metals, energy, and consumer verticals, has 15,372 industry-specific suppliers onboard as is now expanding the marketplace to include financing instruments to select marketplace members in partnership with Prime Revenue solutions.

Drawing the Chalk Lines
Aberdeen's Solution Selection Framework provides imaginary chalk lines that help companies identify specific sets of goals without being overwhelmed. Each of the four elements, invoice receipt, approvals, reconciliation and settlement, can then be coordinated holistically. Supplier adoption is equally dependent on these four requirements.

Key considerations for successful selection and deployment depends on those touch-points closest to the key elements. These include:

- Purchase order integration

- GL integration

- Employee adoption

- Supplier self-service/enrollment

- Automated reconciliation

- Bank integration

Of all these considerations, "time to value" innately links to supplier adoption.

Recommendations for Action

Specifically investigate the potential providers supplier network, in number and fit

Explore expanding the corporate payments platform to increase ROI

Ensure e-Invoicing modes and formats are convenient and acceptable to suppliers (including paper-based and fax)

The surest method of reducing the upfront effort required for deployment is selecting a partner that demonstrates traction with financial intuitions, as well as with suppliers that are currently partners of your company. Several e-procurement, marketplace, and e-invoicing providers have assembled networks that include 15,000 to 30,000 suppliers. Consider the fit of these networks to your business. The network must currently support both *invoice* and *payment* transactions to be viable in the long run. Aberdeen*Group* anticipates that in addition to the major vertical-specific markets that still exist, networks of industry-specific solutions will continue to emerge around critical mass.

Related Research

The E-Invoicing Solution Selection Guide: Leading an Accounts Payable Extreme Makeover; December 2005

The CFO's View of Procurement Getting More to the Bottom Line; September 2005

Invoice Reconciliation and Payment Solution Framework Guides your Accounts Payable Decisions; September 2005

The Purchasing Card Benchmark Report: Best Tactics to Increase Program Growth; March 2005

Author: Jeff Pikulik, Director, Enterprise Performance Management (jeff.pikulik@aberdeen.com)