

selected topic

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Emerging Trends in Technology

Bringing Together the Ecosystem of Suppliers, Buyers, Banks, Data Providers and Trading Partners

In a recent study published by Aberdeen, titled *Technology Platforms for Supply Chain Finance*, the burden of manual-intensive processing of financial transactions was ranked as the top pressure driving an increased focus on Supply Chain Finance (SCF) technology. Historically, the accounts receivable and accounts payable functions have been extremely manual and paper based. As a result, companies have been challenged by lack of resources and visibility causing poor cash flow, increased operational costs, inaccurate forecasting and higher bad debt expense.

During the past decade, solutions to help manage these issues have evolved, first through basic automation of specific functions such as collections and deduction resolution. Eventually, these solutions progressed further and became more holistic, and today most companies view the order-to-cash (O2C) process as a single and complete function.



now recognize that they need a centralized hub that offers optimization of processes and workflow, as well as connectivity and collaboration. With a focus on data consolidation, process optimization and visibility, supply chain finance solutions are gaining traction in the marketplace.

“We are migrating from a decentralized credit and collections operation to a shared services center environment to help us gain visibility into our global receivables across five business units while helping to eliminate our manual processes,” comments Dave Maxey, Input/Output’s treasurer and vice president of tax. “A centralized repository of data and a systematic approach will help us to more effectively manage and consolidate our credit exposure and more easily track and report on our outstanding receivables.”

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However, emerging trends in technology demonstrate that companies are looking for far more than pure automation of the O2C cycle. Today’s technology must be capable of integrating the many disparate players in an ecosystem of suppliers, buyers, banks, data providers and other trading partners. Companies

As the role of the finance and credit professional migrates from a purely back office function to that of a strategic partner, there is even greater demand to connect the dots across the financial supply chain. In this environment, organizations are less focused on hierarchy and protocol and are increasingly more fluid. The treasury, finance and accounting function now works closely with sales, customers and trading partners to facilitate relationships and maximize a company's profitability.

As organizations look to the future, they are looking for centralization and collaboration, both internally and across the ecosystem. The following discusses some key

More companies seem ready to rely on external, pre-configured solutions to automate processes, improve data integrity, manage the systems and perform other select roles. The use of procurement cards (P-Cards) and automated clearinghouse (ACH) processing for check payment is rising rapidly. Twenty percent of the companies trying EIS solutions are seeing between 20% and 50% of their invoice receipt/payment volumes managed via the Internet-based process. In the same Aberdeen study, it is stated that the impact on invoice processing cost can be seen in companies where per invoice cost reduction improvements were 50% to 60%, from \$34 per to \$12.50.

house connects suppliers and buyers in a market neutral, vendor neutral platform where invoice and remittance data is exchanged electronically. As part of this solution, the clearinghouse also offers multiple funding options helping to reduce DSO for the supplier and extend DPO for the buyer, leaving only the exceptions (deductions, chargebacks, claims) to be processed further. This has created an increased demand for solutions that can easily perform data capture; transferring paper based documents to electronic as well as online document management.

A market-neutral clearinghouse can help organizations capture lower spreads on funding as working capital cost savings, increase visibility of transaction flows and invoice approvals, provide early indication of disputed items and automate processing. In this scenario, the clearinghouse links to third party financial institutions, including banks, commercial finance companies and factoring businesses, to help them leverage better information and lower risk into the funding cost equation of each client.

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technology trends relating to electronic invoicing and settlement, clearinghouses, document management, exception processing and dashboards.

Electronic Invoicing and Settlement (EIS)

By automating the financial supply-chain, companies can facilitate workflow and data exchange more effectively. Areas of focus include payment delivery, related documentation and information exchange between the ecosystem of buyers, suppliers, financial institutions and other trading partners.

The most widespread technologies to automate financial supply chain transactions today focus on automating various stages of the accounts payable (AP) and accounts receivable (AR) processes. These technologies include automation and management of credit risk facilitation, collections, deduction management, auto-cash processing, document management/data capture, exception processing and electronic invoice presentment and payment (EIPP) with system-to-system integration across buyer-seller ERP systems and their banking partners. Emerging technologies aimed at electronic invoice and settlement (EIS) are now beginning to gain traction.

Additional savings are available with electronic delivery of invoices as the buyers' ability to capture early-payment discounts becomes the norm rather than the exception. This represents a significant opportunity to increase working capital. Accenture research confirms that electronic invoicing provides annual discount realizations of between 0.3% and 1.0% of spending per year (\$3 million to \$10 million per \$1 billion in spending); if you use an example where typical terms of "2% 10 net 30" mean that the buyer gains a 2% discount for paying 20 days sooner—an annualized return of more than 36%. Accenture studies have also shown that the value generated by early payment discounts is at least five times greater than the value generated by process savings.

Electronic discount-management capabilities benefit sellers by reducing DSO and collection costs while increasing the availability of working capital. On average, every 10% increase in the use of electronic invoices corresponds to a three-day reduction in DSO, thereby improving cash flow.

Clearinghouses

An offshoot of the movement toward EIS is the concept of a clearinghouse. A clearing-

The clearinghouse manages the process so that financial institutions can pass the benefits of lower risks to their corporate clients. Suppliers can mitigate long dispute cycles using invoice reconciliation by tracking discrepancies and matching payment remittance down to the line item. Customers can manage both straightforward and complex transactions, helping to improve auto-cash processing and to expedite closure of open issues.

The clearinghouse tracks, settles and funds both accounts payable and accounts receivable. By bringing together suppliers, buyers and financial institutions, companies can obtain the best possible financing terms, while also offering early detection of invoice disputes and expedited auto-cash processing. The combined solution can help customers lower interest expense, improve management of free cash flow, expedite reconciliation and settlement of invoices and reduce operating costs.

Data Capture/Document Management and Workflow

As more organizations migrate to an open connectivity and collaborative platform with increased automation, there will be

an even greater focus on effective management of information, documents and electronic delivery. According to the Aberdeen report *Technology Platforms for Supply Chain Finance*, published in March 2007, the top areas to target for improvements in the financial supply chain were focused on the ability to capture and route information effectively:

1. Claims/Chargeback Management
2. Electronic Invoicing and Payments
3. Invoice Cleansing/Discrepancy Management
4. Letters of Credit
5. Credit Application Approvals
6. Credit Scoring

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Each one of these areas requires greater focus on data capture and document delivery with a clear emphasis on integration and connectivity. This addresses the streamlined workflow and transfer of documents in and around electronic invoicing, invoice cleansing, claims management, credit risk facilitation and remittance processing.

Sophisticated Claims Management

With the availability of more sophisticated document management and business process technology, companies are now able to more aggressively address the requirement for sophisticated claims management systems. Various industry studies have revealed that 5% to 15% of all invoices were affected by deductions, amounting to 4% to 10% of all open items on accounts receivable. Further, the average time to close a claim is 105 days, according to the Credit Research Foundation (CRF). Much of this is due to inadequate systems for managing documentation and workflow.

A true collaborative network brings together suppliers and buyers and facilitates information sharing in a centralized environment. For many corporations, claims, deduc-

tions in payments and other chargebacks are difficult to manage or quantify because the associated data is poorly organized and often references distributed documents, spreadsheets and contracts.

A claim needs to expeditiously route through an evaluation and approval process using a standardized methodology built on embedded policy. Without this systematic approach, erroneous claims may be approved, and valuable resource time may be wasted. By automating the workflow process around processing claims and deductions, companies can integrate individuals across the organization including customers and suppliers. The result is

reduced operating costs, improved resource allocation and enhanced customer service. Further compounding these challenges are regulatory compliance mandates that require organizations to have embedded policy, audit trails and triggered alerts for monitoring adherence to policy.

For this reason, corporations are now seeking to implement highly sophisticated document management and workflow tools that can assist companies in meeting the stringent guidelines set out in vendor compliance manuals as well as manage routine chargeback issues. According to CRF, studies within the manufacturing industry indicate 50% to 70% of collection personnel time is spent on chasing chargebacks and deductions. Many of these issues can be addressed using technology to facilitate the flow of information both with respect to data capture and document management as well as tools to manage sophisticated enterprise-wide routing for approvals.

One such company that has taken a more proactive approach to deduction management is GLS France, a subsidiary of the GLS Group, the European holding of Royal Mail

(UK Postal Services). The GLS Group, with its head office in the Netherlands, is a network of express and logistic operators with presence in 34 European countries.

Alain Aksil, Director of Corporate Credit, GLS France, comments, "Our service provides efficient management of a decentralized structure. It also provides good visibility of the actions performed by the team and helps us maintain control and coach the team even though they are based in different regions. In the transportation business, efficient management of claims or disputes is crucial for the financial results and customer satisfaction. It helped us better manage the claims or disputes and cross organization collaboration for an immediate resolution of claims and disputes."

Transaction Cleansing/ Order Life-Cycle Management

Invoice and dispute analysis has suggested that 20 to 40% of invoices are inconsistent with the buyer's expectations. These inconsistent invoices fail the three-way reconciliation test of the buyer's A/P and procurement departments, and are blocked and queued for further research.

Blocked invoices languish until your collectors begin to call, often 30 to 40 days after the invoice due date. Thereafter, it can take another 40 to 60 days for your A/R and the buyer's A/P to resolve these inconsistent invoices. While consistent/clean invoices typically result in a DSO between 30 and 40 days, inconsistent/defective invoices often double this figure.

The specific root causes of inconsistent invoices vary by organization. And these root causes change and evolve over time as the complexity in the O2C cycle increases. Breakdowns in order processing (manual errors, change orders, validating orders, price changes, discounts, deductions) and order fulfillment (stock-outs, shipping delays, engineering change orders, returns) create numerous opportunities for errors. In addition, the O2C cycle spans disparate enterprise systems, and multiple departments, geographies and third party providers. These fragmented processes and information flows often result in invoice inconsistencies. Finding these upfront by conducting a three-way reconciliation pro-

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cess can help companies drive out errors before the payment is due. This can help improve DSO and minimize the number of disputed invoices.

Dashboards and Scorecards

In line with the increased requirements to drive connectivity across disparate systems, corporations are now looking to access the aggregated data in real-time. This has resulted in the use of dashboards and other analytics tools such as performance scoreboards that can take data from various systems and present it in a unified format. These solutions offer graphical

representation of various trends, and side-to-side metrics comparisons help companies to make better decisions.

The use of connectivity platforms can also allow companies to integrate third party data that can be used to help view current and future supply chain finance strategies. One example is to take benchmarking data from industry groups and place that against internal data to more accurately measure marketplace trends as well as performance. These tools are also useful for calculating the impact on cash flow from accepting invoice discounts with the ability to per-

form what-if scenario analysis. Other examples include creating customer scorecards to measure vendor compliance, chargebacks and other profitability indicators.

As companies begin to migrate to a more holistic view of the financial supply chain, there will be an increased opportunity for finance and credit professionals to deliver even greater value as the facilitator of information and data flow across the ecosystem of suppliers, buyers, banks, data providers and other trading partners. ■

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