SPECIAL REPORT:
3 Ways Transforming AP Processing Delivers Strategic Value to the C-Suite

An AP & P2P special report

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SPECIAL REPORT:
3 Ways Transforming AP Processing Delivers Strategic Value to the C-Suites

This special report is based on the findings and analysis of primary research recently conducted by the Institute of Finance and Management and based on data provided by hundreds of financial operations professionals.

The uncertain global economic environment and the increased emphasis on profit-margin growth is putting more pressure on finance executives to better manage working capital and corporate spend. Yet, many businesses rely on manual, paper-based accounts payable processes that undermine these objectives. As a result, accounts payable automation is moving from a "nice to have" to a "must have" in the eyes of more finance executives. These finance executives recognize that eliminating paper-based accounts payables processes with electronic invoicing delivers more than operational benefits. Automation helps ensure the financial viability and success of the corporate enterprise.

The influence of accounts payable is now extending from the back office to the corner office.

The majority of controllers surveyed for the Institute of Finance and Management's (IOFM's) *Senior Finance Executive Survey* (58 percent) rate their accounts payable department as having "high value" and being a "critical component of their business." Another 22 percent of controllers surveyed by IOFM said that the accounts payable department is "integral to some business units."

Against this backdrop, it is no wonder that 63.5 percent of controllers say that accounts payable is a priority for improvement, according to IOFM. And controllers are willing to back up their plans with additional capital: the majority of controllers surveyed by IOFM (60.2 percent) anticipate that accounts payable will receive additional investment for process improvement projects– the only finance function that the majority of survey respondents expect will get receive more investment.

Why is the accounts payable department's stock rising with the C-suite? More finance executives recognize that accounts payable automation supports three of their top strategic objectives:

- **Capital:** The combination of global economic volatility and slow revenue growth has made CFOs reluctant to take risks, according to Deloitte. Compounding matters, stubbornly high Days Sales Outstanding remains a top challenge for businesses. This has resulted in businesses placing a greater emphasis on working capital management and liquidity management. Eleven percent of those surveyed for IOFM's Senior Finance Executive Survey regularly track and report on alternative financing options. But manual accounts payable processes make it difficult for buyers to process invoices fast enough to facilitate timely, much less early, payment of approved invoices. Thirty-two percent of senior finance executives surveyed by CFO Research in 2015 said their organization achieved better working capital and cash management through financial operations automation.
- **Control:** Improving visibility into cash flow and operational performance is the top finance and administration priority of controllers, IOFM finds. Some 68.9 percent of controllers surveyed by IOFM ranked improving visibility into cash flow and cash management as their top priority, narrowly ahead of improving visibility into the overall performance of finance and administration functions (identified by 66.4 percent of survey respondents). Similarly, with revenue growth hard to come by, businesses are putting greater emphasis on spend management to boost margins and earnings performance, Protiviti's 2016 Finance Priorities survey reported. None of this is possible in a manual accounts payable environment where: essential information is not captured, data is poorly organized, information is not timely, systems are not well-integrated, and decision-makers do not have access to key variables.
- **Collaboration:** More senior finance executives recognize that increasing the level of collaboration with trading partners streamlines financial business processes, reduces operating costs through faster dispute resolution and the reduction of unnecessary phone calls and e-mails regarding invoice and payment status, facilitates more early-payment discount opportunities, and strengthens regulatory compliance via faster collection of tax documents. In a paper-based environment, trading partners must rely on inefficient phone calls and e-mails for communications, and the exchange of documents is too often done via the mail.

This report shows how transforming accounts payable helps the C-suite achieve these objectives.

The cost-saving benefits of conducting global trade and commerce using electronic invoicing are well-documented. Compared to paper processes, electronic invoicing delivers total cost savings of **59 percent**, according to Billentis. And highly automated organizations are able to process **15 times** as many invoices as manual operations, with an average turnaround of one-fifth the time.

The Solution

A lack of automation undermines accounts payable's ability to support strategic corporate initiatives.

Businesses recognize that they lack the system and automation necessary to facilitate timely payment, and only 1 in 4 businesses have the highly automated processes in place required to transform accounts payable. MasterCard's Creating Payment Energy study found that more than 75 percent of businesses lack automated processes that fully optimize accounts payable. And 70 percent of businesses surveyed admit process bottlenecks compromise their ability to pay suppliers early. As a result, controllers believe that accounts payable is the most time-consuming, laborious, and paper-intensive finance and administration function, ahead of activities such as tax and audit and reporting. The bottom line is that manual, paper invoice processes can limit the C-suite's ability to manage capital and costs, and collaborate with trading partners.

That's where electronic invoicing networks come in.

Electronic invoicing networks accelerate global trade and commerce by enabling buyers and suppliers to submit, process, and pay invoices online in the language, currency and format of their choice. Suppliers use their accounting system or a portal on the electronic invoicing network to submit invoice data electronically. The network then processes, translates, enriches and validates the data, enabling suppliers to distribute legally compliant invoices around the world. Invoices are delivered directly to the buyer's accounts payable solution or enterprise resource planning (ERP) system, such as SAP, Oracle eBusiness Suite or JD Edwards. Built-in workflow capabilities through business process management (BPM) software enable buyers to improve their payables processes and measure, manage and quickly adjust to process change requirements. Digitally signed invoices are archived for buyers and suppliers, meeting each compliant country's regulatory requirements.

Forty-six percent of businesses in the United States are evaluating the usage of an electronic invoicing solution, 11 percent are in the deployment phase and set to go live in the next six months, and 25 percent currently have a solution in place, Billentis reports. Worldwide, the volume of electronic invoices is expected to continue growing 20 percent year-over-year, Billentis adds.

But more importantly, electronic invoicing networks deliver value to the C-suite in three ways:

1. **Invoice Finance**
2. **Analytics**
3. **Collaboration**

33% of finance executives surveyed by CFO Research said their business increased net income and profit margins as a result of automating financial processes.

Invoice Finance

Cash is king: Buyers have it and suppliers need it.

Collecting cash is a significant challenge for businesses, particularly smaller ones. Too many businesses struggle to bridge the working capital gap between providing goods or services and getting paid. After paying out their costs, businesses often have to wait too long for their clients to pay them. These extended payment terms impact their ability to invest in growing their business.

More than one in 10 small and mid-sized businesses must wait at least 90 days to get paid by their suppliers, a 2015 study by Red Dot Research found. Three percent of small and mid-sized businesses have to wait 120 days for payment, and more than half of the unpaid invoices that small and mid-sized businesses are owed is overdue. As a result, nearly a quarter of small and mid-sized businesses in the United Kingdom face a potential financial crisis due to late payment of invoices.

No single type of customer is to blame for late payments. Twenty-two percent of small and mid-sized businesses said their late payments are from large businesses, 11 percent of small and mid-sized businesses said their late payments were from mid-sized businesses, and eight percent of small and mid-sized businesses said their late payments were from the public sector. Thirty-three percent of businesses surveyed by Red Dot Research said there is no clear pattern to their late payments.

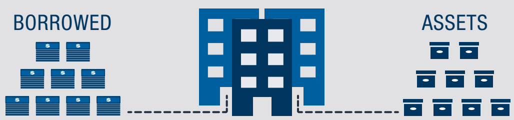
The number one issue resulting from late payment of invoices, as reported by 39 percent of firms surveyed by MasterCard, is trouble paying salaries – a situation no business wants to be in. Paying suppliers (36 percent), capital spending and investments (36 percent) and overall financial security (36 percent) are the other areas most impacted by slow payments, according to MasterCard. In fact, 23 percent of those businesses surveyed by Red Dot Research say that late payments have put them at risk of closure. The issue was most acute in the technology sector, where almost a third of all businesses (32 percent) had been impacted financially by late payments from customers.

A lack of accounts payable automation also contributes to slow payments. While 88 percent of buyers surveyed by MasterCard believe they have a social responsibility to pay promptly, it still takes an average of 10 days from invoice approval for payment to take place. As a result, 74 percent of buyers think late payment is a “fact of business life” and will always happen, MasterCard finds.

Financing enables suppliers to manage their working capital, to trade with confidence.

Thirty-two percent of small and mid-sized businesses use bank loans to access operating capital while they wait for payments from suppliers, according to The Milken Institute’s report, *Access to Capital: How Small and Mid-sized Businesses are Funding Their Future*. Similarly, 10 percent of the small and mid-sized businesses have used loans from non-bank lenders for operating cash.

60% of businesses that borrowed between 2014 and 2015 had to pledge personal assets as collateral



Surprisingly, the same study found that 26 percent of small and mid-sized businesses are tapping friends and/or family for operating cash: nine percent of those surveyed have received debt investment from friends and family, nine percent have received operating cash from family offices, and eight percent of those surveyed have received an equity investment from friends and family.

Compounding the problem half of the businesses that borrowed between 2014 and 2015 did not get the full amount they needed, according to the Federal Reserve Bank’s 2015 Small Business Credit Survey. Making matters worse, 60 percent of businesses that borrowed between 2014 and 2015 had to pledge personal assets as collateral, putting additional strain on those pledging their assets.

The high percentage of financing obtained through friends and families speaks to the difficulty that small and mid-sized businesses have had in obtaining financing from alternative sources. In the past, alternative financing methods put small and mid-sized businesses through the wringer with extensive paperwork, onerous due diligence requirements from the financing company, long delays waiting on funding authorization, and complicated pricing structures. Early approaches to invoice financing – where a third-party agrees to purchase a supplier’s unpaid invoices for a fee – were not immune from these issues. What’s more, with some invoice financing models, small and mid-sized businesses faced the possibility of losing control of their credit function as the finance company chased the debt.

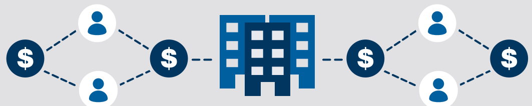
A wide range of factors increase a small or mid-sized business’ need for capital, including the time of year, the production cycle, investment decisions, payroll, and large unexpected expenses. For instance, a construction company may want to leverage network financing while waiting for the payment on the latest stage of a project to a software company billing for a license fee.

Invoice financing through an electronic invoicing network puts suppliers in control of their cash flow. Invoice financing provides access to cash held in invoices that have been approved by a buyer but not paid. For example, an invoice might be approved via a buyer’s electronic invoicing system, and not be paid for 90 days. Invoice financing enables the early release of cash for approved invoices. Suppliers register for the service using a two-step online process that replaces the long-winded underwriting model. Suppliers then submit invoices via an electronic invoicing network, select which approved invoices they would like paid early, and receive the invoice amount early, less a discount charge. The discount charge is dynamic, based on when suppliers choose to sell their approved invoices. Suppliers do not pay any fees to register for invoice financing or to maintain the service. All early-payment discounts are executed via the electronic invoicing network.

Importantly, early-payment discounts through an electronic invoicing network are optional for suppliers. There also are no stipulations on how frequently a supplier must finance approved invoices; suppliers can register for the service and not use it until they need financing.

And, unlike invoice discounting services or factoring, where only 85 percent of an approved invoice is available for financing, as an example, invoice financing enables suppliers to claim the full amount of an approved invoice, less a fee. Invoice financing also does impact a supplier’s credit facility.

41% of buyers plan to deploy supply chain financing solutions within the next two years, according to Ardent Partners' *ePayables 2015: Higher Ground report*.



With invoice financing, the financing company does not chase the debt. In fact, the buyer is not aware that a particular invoice has been chosen for early payment.

Suppliers are reaping significant benefits from invoice financing. Suppliers in 35 industries selling to 11 network buyers have taken nearly $200 million in early payments so far using the invoice financing solution from Tungsten Network. While suppliers in all industries can benefit from invoice financing, the model is proving especially appealing to suppliers in facilities management, detective, guard and armored car services, business services (all sorts), construction, and engineering and architecture.

Similarly, a wide range of buyers are offering invoice financing to their suppliers, including buyers in the retail, pharmaceuticals, media, consumer products, energy and consulting industries.

Invoice financing enables small and mid-sized businesses to reduce their reliance on the traditional banking model, as well as on friends and family. Compared to those financing models, invoice financing provides suppliers with easy access to financing via an electronic invoicing network, lending rates far below the 10 basis points charged by some third-party financing companies, and simple requirements to meet for Know Your Customer regulations. What's more, network financing is available to all suppliers on an electronic invoicing network.

In addition to helping suppliers better manage their cash flows, invoice financing reduces the churn in suppliers that can raise a buyer's cost of goods and services, and potential impact its supply chain. It is for this reason that 41 percent of buyers plan to deploy invoice financing, Ardent Partners reports.

Highly automated organizations manage over **90 percent** of their spending, while manual operations have less than **25 percent** of their spending under management, Aberdeen finds.

It is no wonder that businesses are looking beyond traditional banks for financing. Thirty-four percent of businesses have used supply chain financing to improve their cash position, according to MasterCard. Additionally, since the global recession in 2009, that supply chain financing industry has more than doubled in size, research from Factors Chain International found.

Analytics

Only 50 percent of businesses surveyed by Ardent Partners in 2015 have "strong" visibility into enterprise spend, while a slightly higher percentage of businesses (55 percent) have "strong" visibility into the percentage of spend under management. A lack of visibility into spending can lead to redundant purchases, budget variances, "maverick" spending, and contract disputes. The inability to plan for large amounts of spending also can have negative ripple effects throughout the business

This is why 48 percent of businesses say that the percentage of spend under management is a "valuable" or "highly valuable" metric to their organization, according to Oxford Economics.

Not surprisingly, the chief procurement officer (CPO) is wielding more power. In a report produced by 3GEM nearly one in five UK businesses report that the CPO makes the final decision on spend, of 1,000 business decision-makers in the United Kingdom. Interestingly, small businesses perceive the procurement role as having a bigger impact on the bottom line than the sales and marketing teams. Nearly a half (42 percent) of small businesses and 62 percent of mid-sized businesses think the procurement role should be represented at the board level to reflect its significance.

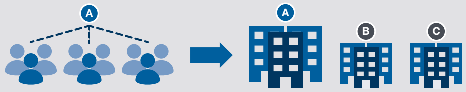
Thirty percent of executives would like their organization to be more focused on analyzing spend, according to Oxford Economics. What's more, 33 percent of procurement practitioners surveyed by Oxford Economics believe big data will have influence over procurement over the next three years.

Sixty percent of UK small and mid-sized businesses are paying more attention to the amount spent on goods and services compared to a year ago, according to 3GEM. The increased focus on spend management is a sign that global market turmoil is continuing to create uncertainty and insecurity.

It is for these reasons that more businesses are deploying analytics.

Analytics, including those provided by some electronic invoicing networks, enable buyers to improve procurement controls, ensure contract compliance, and reduce their cost of goods and services.

"Improved control to ensure that purchases are made with preferred suppliers" is a top reason businesses automate procurement, according to IOFM's 2015 AP Technology Survey.



Analytics provide ready insights into critical spend data such as invoice line items, invoice number, price, supplier name, product identification number, line item description, purchase order number, unit measure and price, line value, value-added tax (VAT), and currency. Users can aggregate data and drill down into invoice information to find transaction volumes and price trends, as examples. Analytics also provide businesses with real-time data into their spending at an enterprise, supplier, category, service, and individual invoice level. Traditional procurement and accounts payable reporting interrogates old data. And analytics provide a four-way match between purchase orders, receipts and invoices, with the lowest price paid for a particular product or service, allowing for end-to-end tracking and traceability. Dashboards allow users to model the implications of different purchasing decisions.

Andrew Bartolini of Ardent Partners, says, "The spend- and supplier-specific data included in invoices can be leveraged to identify spend trends and patterns, support supplier negotiations, and determine how well-positioned a company is to take advantage of supply chain financing options."

Applying analytics to data, such as that from an electronic invoicing network, eliminates the need for data cleansing or data mapping. Data from a network is ready to be analyzed. Some networks also make analytics available through easy-to-use reporting tools that require no report programming.

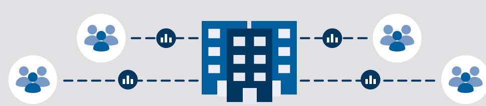
The average business suffers **$4.6 million** in contract leakage per billion dollars in spend, according to The Hackett Group.

= **4.6 million**
IN CONTRACT LEAKAGE

Analytics enable buyers to understand and improve control over their spending by gaining access to previously inaccessible data and savings opportunities in real-time. For instance, buyers can identify price variances on identical products and save between 1 percent and 4 percent of their total spend. Additionally, finance can warn a department that it is overspending its budget in time for a manager to rein in purchases before the end of the month or the end of a quarter. A project manager can take action to rectify potential cost overruns while there is still time to get a project back on track. Analytics also help buyers improve supplier lifecycle management, gain leverage during supplier negotiations, and consolidate suppliers. And procurement leaders can readily access data on spending by category.

Analytics also enable buyers to identify historical price fluctuations, opening the door to discounts or credit notes. Similarly, analytics can also review electronically submitted invoices for price variations and flag invoices (before payment) where the historical data suggests there may be an opportunity for a discount or credit note. The lowest prices paid for the flagged goods or services are displayed with the flagged invoice. Analytics also review the price history and pricing behavior from different locations, to ensure that geographically dispersed purchasers are paying the appropriate price for the same goods and services. And analytics automatically determine whether goods and services are purchased from the right supplier under the ideal contract. Additionally, analytics help buyers ensure contract and policy compliance. All of this lowers a business' cost of goods. Best-in-class businesses (which have a higher level of automation) reduced their purchasing costs from $10.04 per order in 2009 to $4.80 per order in 2013, The Hackett Group reports. Conversely, businesses with no automation pay $18 per order, according to The Hackett Group.

40% of best-in-class financial operations can measure cash flow performance across their organization, according to Aberdeen Group's Beyond Payables report.



Analytics also can save businesses millions of dollars annually by automatically identifying cross-border transactions that should not be subject to VAT based on where the cost originated.

Suppliers also stand to benefit from analytics. Solutions are being developed that use artificial intelligence to help identify and collate publicly listed prices so suppliers can gain the insight they need to stay competitive. Businesses in the United Kingdom spend an average of one day a month analyzing prices, with seven percent of businesses spending a week or more per month keep abreast of the competition, according to research conducted by 3GEM.

Nearly two-thirds of businesses (59 percent) review their competitors' pricing through online research, and a quarter of businesses pay for market analysis. Businesses believe that this increased market intelligence provides suppliers with more power to inform their pricing, and to gain greater influence in dictating the price of goods and services, rather than allowing buyers to control pricing.

Of course, buyers can use these insights to open up candid discussions with their suppliers.

It is no wonder that analytics deliver 2.2 times the payback of traditional business intelligence products, according to Nucleus Research. Or that 40 percent of best-in-class financial operations can measure cash flow performance across their organization, according to Aberdeen Group.

For these reasons, 40 percent of organizations identified improving accounts payables reporting and analytics as a top priority, according to Ardent Partners' ePayables 2015: Higher Ground report.

18% of business leaders in the United Kingdom conduct "mystery shopping" themselves to keep abreast of the competition's pricing, according to 3GEM.

Collaboration

Strong collaboration between trading partners improves profit margins and business outcomes. However, a paper-based accounts payable environment makes it difficult for internal, much less external, stakeholders to collaborate on critical invoice processing functions.

An electronic invoicing network improves supplier collaboration by providing one clear communications method for all suppliers, regardless of their method of invoice submission.

With an electronic invoicing network, suppliers can receive confirmation that the buyer received their invoice, and electronically view the status of their invoices and payments, eliminating calls and e-mails to the buyer's accounts payable staff. Invoice information is available from the time of receipt, through final payment. Buyers also can send invoice processing and payment status information in their own standard systems format, as well as control the frequency of updates. Communication is tailored to the buyer's local language requirements, and those of suppliers. Exceptions also can be managed online via an electronic invoicing network, eliminating the back-and-forth phone calls and e-mails that are common in a manual accounts payable environment, as well as the chasing down of stakeholders. Electronic invoicing networks also facilitate communications between partners via electronic newsletters and messaging in purchase orders.

And electronic invoicing networks streamline the process of onboarding new suppliers, and collecting documents required for regulatory compliance, such as W-9 or W-8 tax forms.

Electronic invoicing networks also enable users to easily share information and collaborate with coworkers. Multiple individuals can review and approve the same invoice simultaneously in a controlled manner. Staff can collaborate and share information online to resolve disputes. Accounts payable staff can collaborate with procurement, such as sharing electronic purchase orders and advance shipping notices, and verifying purchasing information. Security controls ensure that access to specific data is restricted only to those who are authorized to view and approve invoices.

Forrester estimates that more **than 40 percent** of all U.S. business-to-business (B2B) activity and **20 percent** of global B2B activity is conducted through electronic channels.

The Bottom Line

With revenue growth hard to come by, the C-suite is looking to the accounts payable department to help the business increase profit margins and financial performance. Manual, paper-based accounts payable processes undermine these efforts. As a result, more businesses are migrating to an electronic invoicing network to automate accounts payable. Electronic invoicing networks transform accounts payable with capabilities for invoice financing, analytics, and collaboration. Not only do these capabilities support the C-suite's objectives for working capital management, spend management, and supplier collaboration, they provide businesses with a competitive advantage.

About the Sponsor

This special report was sponsored by Tungsten Corporation plc. Tungsten Corporation (LSE: TUNG) aims to be the world's most trusted business transaction network by using data intelligently to strengthen the global supply chain.

Tungsten Network is a secure e-invoicing platform that brings businesses and their suppliers closer together with unique technology that revolutionizes invoice processing, maximizes efficiency, and improves cash flow management. The network also provides users with real-time spend analysis through Tungsten Analytics, and offers access to Tungsten Early Payment, a form of alternative finance for businesses.

Tungsten serves 56 percent of the Fortune 500 and 67 percent of the FTSE 100. It enables suppliers to submit tax compliant e-invoices in 47 countries, and last year processed transactions worth more than $187 billion for organization.

About the AP & P2P Network

The AP & P2P Network is the leading provider of training, education and certification programs specifically for Accounts Payable, Procure-to-Pay, Global and Shared Services professionals as well as Controllers and their F&A teams.

Membership to the AP & P2P Network **(www.app2p.com)** provides comprehensive tools and resources to financial operations professionals who manage or are deeply involved in the Accounts Payable and Procure-to-Pay process.

Focus areas include best practices for every AP & P2P function; AP & P2P metrics and benchmarking data; tax and regulatory compliance (e.g. 1099, 1042-S, W-9, W-8, Sales & Use Tax, Escheatment, VAT, Canadian Tax, Internal Controls); solutions to real-world problems challenging your department; AP & P2P automation case studies; member Q&A networking forums, Ask the Experts, calculators, and more than 300 downloadable, customizable AP & P2P policies, flowcharts, templates and internal control checklists.

A membership to the AP & P2P Network provides tangible ROI to any organization – saving your organization time, money and keeping you compliant.

Over 10,000 professionals have been certified as an Accredited Payables Specialist or Manager (available in English, Simple Chinese and Spanish), and Certified Professional Controller through the AP & P2P Network and its parent company, the Institute of Finance & Management.

AP & P2P Network also hosts the Accounts Payable and Procure-to-Pay Conference and Expo (Spring and Fall), designed to facilitate education and peer networking.

The AP & P2P Network is produced by the Institute of Finance and Management (IOFM), which is the leading organization providing training, education and certification programs specifically for professionals in Accounts Payable, Procure-to-Pay, Accounts Receivable and Order-to-Cash, as well as key tax and compliance resources for Global and Shared Services professionals, Controllers and their F&A teams. With a universe of over 100,000 financial operations professionals, IOFM is the trusted source of information in the rapidly evolving field of financial operations.