5 Ways Electronic Invoicing Networks Transform Accounts Payable into a Profit Center

An AP & P2P white paper

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Businesses are facing the perfect storm of slow revenue growth, volatile markets, digital disruption, and new competitors. As a result, most CFOs surveyed by Deloitte are taking a cautious approach to business investments, despite the seemingly improving global outlook. CFOs, no doubt, are mindful of the outsized impact that poor financial processes have on the fortunes of a business. Forbes warns that since 2000, over half of the Fortune 500 has been acquired, gone bankrupt or ceased to exist.

With revenue growth hard to come by, and CFOs unwilling to take risks in an uncertain economy and shifting competitive landscape, businesses are looking for new ways to increase profit margins.

This is why more finance functions are placing greater focus on supporting corporate initiatives for growth and profitability. In particular, finance organizations are transforming their accounts payable function by migrating to an electronic invoicing network. This white paper details the rising strategic importance of accounts payable (heretofore the quintessential back-office function), and five ways that automating accounts payable with electronic invoicing networks drives corporate profitability.

The Situation

Accounts payable automation has typically been viewed through the lens of increased efficiency and effectiveness. But more finance executives recognize the effect that accounts payable has on profits.

The majority of controllers (58 percent) rate their accounts payable department as having “high value” and being a “critical component of their business,” according to IOFM research. Another 22 percent of controllers said that accounts payable is “integral to some business units,” IOFM found.

What’s more, 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 controllers surveyed by IOFM expect will get receive more investment for improvement projects.

Of note, 27.6 percent of controllers say that their accounts payable department plans to deploy electronic invoice network capabilities, and 19.5 percent of plan to deploy a supplier portal.

This is a far cry from the traditional view of accounts payable as a tactical, back-office function.

The Solution

It is for these reasons that more organizations are migrating to electronic invoicing networks.

> “Status quo, you know, is Latin for, ‘The mess we’re in!’ ”
>
> *Source: President Ronald Reagan*

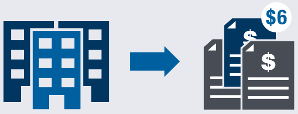
5 Ways Electronic Invoicing Networks Transform Accounts Payable into a Profit Center

Electronic invoicing networks drive corporate profitability and growth 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.

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

IT COSTS **39%** of businesses over $6 to process an invoice. *Source: IOFM.*



The Benefits

Electronic invoicing networks drive corporate profitability and growth in five ways:

1. Accounts payable cost reduction

Most organizations spend a lot of money processing invoices.

The average cost to process an invoice stands at $12.90, with a median invoice processing cost of $7.90, according to research from the Association for Image and Information Management (AIIM).

But average invoice processing costs do not tell the whole story about accounts payable expenses. Businesses surveyed by AIIM say it costs them an average of 2.2 times more (and a median of 1.65 times more) to process invoices that do not have a purchase order compared to purchase order-based invoices. This puts the average cost to process a non PO-based invoice at between $18 per invoice and $25 per invoice. What's more, it costs one quarter of businesses at least 3 times as much to process an invoice that does not have a purchase order compared to purchase order-based invoices.

Electronic invoicing contributes to corporate profitability by reducing or eliminating the accounts payable costs associated with manual data entry, paper handling, filing and retrieval, routing of documents, supplier inquiries, and audit requests. It costs a best-in-class company (which typically has a higher level of accounts payable automation) an average of $2.20 to process an invoice, while average companies (with low or moderate levels of automation) pay $19.10 to process an invoice, according to research from Ardent Partners. In fact, as a percentage of revenue, top tier finance organizations run at a 40 percent lower cost than their peers, PwC finance benchmark data finds.

For an organization that processes 1 million invoices per year, electronic invoicing delivers annual cost savings of $4.6 million a year compared to paper-based processes, and nearly $1 million a year compared to invoice scanning and data extraction, according to The Hackett Group's 2015 P2P Study. In fact, "median performing" organizations that process 1 million invoices annually stand to lose $88,000 per week by not migrating from paper-based processes to electronic invoicing, The Hackett Group's research finds. The cost savings include technology, labor and outsourcing fees.

What's more, electronic invoicing provides suppliers with self-service visibility into the status of invoices and payments, resulting in a more than 60 percent reduction in inbound supplier inquiries.

Clearly, the cost savings provided by electronic invoicing networks helps increase profitability. But the extent to which this can actually be achieved is very dependent on the performance of the electronic invoicing network. This performance is directly related to the ability to integrate with suppliers and leverage true electronic invoicing. Organizations cannot achieve optimum cost savings by perpetuating paper or trying to move everything to the Web.

2. Efficiency improvement

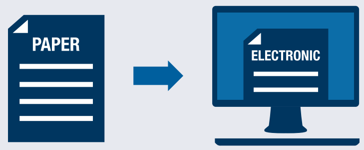
Improving processes and automating manual processes rank among the top accounts payable concerns for 41 percent and 33 percent, respectively, of organizations surveyed by IOFM. What's more, 15 percent of those surveyed identified developing and maintaining effective policies as a top accounts payable concern, while 7 percent of businesses pointed to staffing levels as a top concern. Dysfunctional accounts payable affects efficiency and agility, which puts an organization at a significant disadvantage in volatile markets.

Manually processing paper invoices results in costly and error-prone keying of invoice information, lost or misplaced invoices, long approval and exception resolution cycles (which result in late fees and missed discounts), compliance and security risks, high paper storage and retrieval costs, delays uploading data on approved invoices to downstream systems, time-consuming supplier inquiries regarding invoice and payment status, and difficulty implementing operational best practices.

The results of IOFM's *2016 AP Key Performance Indicators Study* illustrate the inefficiencies of manual invoice processing. Of the 69 full-time equivalents (FTEs) employed in accounts payable departments (on average across all locations), all but one FTE performs invoice data-entry.

The cost-saving benefits of migrating to an electronic invoicing network 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.

TOTAL COST SAVINGS OF **59%**



In fact, 27 percent of employee time in an average accounts payable department is spent on waste or performing activities that could be automated, according to PwC finance benchmark data.

Well-performing electronic invoicing networks increase profitability by automating efficiency-draining tasks such as:

- **Invoice receipt**: invoices are securely transmitted from a supplier's billing system to a buyer's accounts payable system without requiring data entry; an online portal enables suppliers to track invoice and payment status and collaborate with buyers to resolve disputes
- **Invoice validation**: configurable business rules validate invoice data at the point of supplier submission; validating invoices at submission increases straight-through processing rates
- **Invoice matching**: two-way and three-way matching of invoices to purchase orders and/or goods and services; unmatched invoices are electronic routed for approval or resolution
- **Invoice routing**: based on company-specific business rules such as invoice amount; the workflows provided by electronic invoicing drives control across all invoices and processes
- **Invoice posting**: approved invoices are sent to an enterprise resource planning (ERP), general ledger (GL) or accounting system for posting and payment

Electronic invoicing also improves efficiency through the reduction of processing errors. Forty-seven percent of controllers surveyed by IOFM identify errors among their accounts payable department's biggest challenges. Every instance of human intervention in the invoice process increases the likelihood of costly errors. Unfortunately, accounts payable is the most manual and paper-intensive finance and administration function, according to controllers surveyed by IOFM. Manually processing paper invoices requires data entry, paper handling and routing, exceptions resolution, supplier inquiries, document filing and retrieval, and searching for misplaced invoices.

Top-tier finance organizations not only operate at lower cost, they also make more effective use of their resources, PwC notes. For instance, these organizations dedicate more FTEs to data analysis and to partnering with other parts of the business to achieve strategic initiatives. Top-tier finance organizations spend 20 percent more time on data analysis than their peers. As a result, these organizations have a more comprehensive view of how they can help drive corporate profitability.

The cost per full-time equivalent in finance is increasing, especially in the area of business insights, according to PwC finance benchmark data.

56% of finance executives say that improved technology would make finance processes more effective. *Source: PwC finance benchmark data.*

3. Cash and working capital management

Better cash management and more discount capture opportunities are among the top concerns of business surveyed for IOFM's *2016 AP Key Performance Indicators Study.* Slow invoice approval cycles result in costly late fees and shut businesses out of early-payment discount opportunities. Improving cash and working capital management contributes to corporate profitability and growth.

Eighty-percent of the businesses surveyed by IOFM in 2016 receive invoices that offer early-payment discounts. In fact, 5 percent of those surveyed said that more than 25 percent of the invoices their business receives offer discounts for early-payment, while 3 percent of businesses say between 16 percent and 25 percent of the invoices they receive offer early-payment discounts.

Businesses that take advantage of just a discount term of 1/10 net 30 earn an annualized 18 percent return – a lot more than they can currently earn from a typical interest-bearing bank account.

But the majority of all businesses capture less than 21 percent of all early-payment discount offers, and 12 percent of businesses are unable to capture any early-payment discounts, IOFM's *2016 AP Key Performance Indicators Study* found. These results are more sobering when you consider that 79 percent of businesses say their suppliers offer payment terms of 30 days or more. Only 27 percent of businesses surveyed by IOFM capture more than 80 percent of early-payment discount offers.

Electronic invoicing networks speed cycle times and result in more discount opportunities.

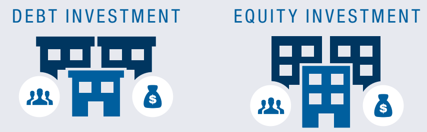
Companies with automated solutions can process invoices in less than half the time of average companies (3.7 days versus 8.8 days) and in less than one-third the time of laggards (3.7 days versus 14.3 days), according to PayStream Advisors' 2015 Invoice Workflow Automation report.

Similarly, electronic invoicing networks facilitate dynamic discounts between buyers and sellers. Buyers create an early payment program through an electronic invoicing network and invite suppliers to participate. Sign-up takes just a few minutes. Once an invoice is approved by the buyer, the supplier is presented with options on when they want to be paid. The sooner the payment, the bigger the discount the supplier must give; the longer the time until payment, the smaller the discount.

Invoice financing is another way that electronic invoicing networks help drive profitability.

Invoice financing provides suppliers with 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.

9% of small and mid-sized businesses are funding their future with debt investment from friends and family, while **8 percent** of small and mid-sized businesses have received equity investment from friends and family. *Source: The Milken Institute: Access to Capital.*



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.

Invoice financing is optional for suppliers. There also are no stipulations on how often a supplier must finance invoices; suppliers can register for the service and not use it until they need financing.

Compared to traditional bank financing and money from family and friends, invoice financing provides suppliers with easier access to cash, 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. And invoice financing is available to all suppliers on an electronic invoicing network.

In addition to helping suppliers better manage their cash, financing reduces the churn in suppliers that can raise a buyer's cost of goods and services, and impact its supply chain – both of chip away at profits. This is why 41 percent of buyers plan to deploy invoice financing, Ardent Partners reports.

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.

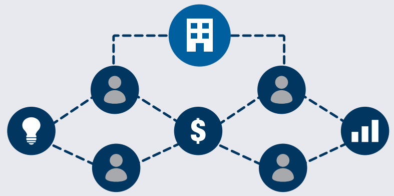
While suppliers in all industries can benefit from invoice financing via an electronic invoicing network, the model is proving especially appealing to suppliers in facilities management, detective, guard and armored car services, business services, construction, and engineering and architecture.

4. Transparent spend

Visibility into corporate spend is critical to profitability and growth.

However, 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

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



Not surprisingly, 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.

Electronic invoicing networks provide the transparent spend visibility that improves profitability.

The analytics provided by some electronic invoicing networks enable buyers to improve procurement controls, ensure contract compliance, and reduce their cost of goods and services. Well-performing technology accomplishes this by providing organizations with ready insights into critical spend data such as:

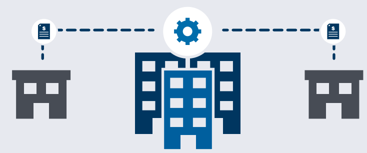
- Invoice line items
- Line item description
- Invoice number
- Purchase order number
- Unit measure and price
- Line value
- Supplier name
- Product identification number
- Supplier spend
- Price
- Price variances
- Non-compliant spent
- Supplier and category trends
- Pre-purchase and pre-contract activity
- Post-purchase and historical price comparisons
- The timing of cross-border value-added tax (VAT) payments

Users can aggregate data and drill down into data to find transaction volumes and price trends. 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 product or service, allowing for end-to-end tracking and traceability. Dashboards allow users to model the implications of purchasing decisions.

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.

Analytics also enable buyers to identify historical price fluctuations, opening the door to discounts or credit notes. The lowest prices paid for the flagged goods or services are displayed with the flagged invoice.

“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.*



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.

“Without meaningful data, you are just another person with an opinion.”

Analytics also review the price history and pricing behavior from locations, to ensure that dispersed purchasers pay the appropriate price for the same goods and services. And analytics determine whether goods and services are purchased from the right supplier under the ideal contract.

Aberdeen Group research shows that businesses with a high level of accounts payable automation have more than four times greater visibility into their overall organizational cash flow than other businesses. Best-in-class organizations that achieve a comprehensive view into enterprise spend also report 36 percent higher levels of annual savings and 35 percent better contract compliance rates than other groups in the market, Ardent Group finds. It is no wonder that 41 percent of controllers cite improved visibility as the top benefit of accounts payable automation, according to IOFM research.

5. Agility and scalability

Electronic invoicing networks also provide the agility and scalability that drives profitability.

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.

All of this frees staff to focus on value-added activities, and enables organizations to quickly adapt to changing needs and grow their volume without the need for additional staff or infrastructure.

> "You cannot afford to just have a numbers guy next to you. You need someone who has the awareness of where the market and the competition is heading."
>
> *Source: Costas Charitou, CEO, Lanitis Group of Companies.*

Each of these benefits contributes to corporate profitability.

But electronic invoicing networks also support the efforts of CFOs to develop a strategic response and pre-emptive changes as organizations migrating towards digital technology. Studies show that, “only 1 percent of what could be connected in the world is actually connected.” As a result, half of all CFOs consider digital technology a high or very priority, and 49 percent of CFOs think they will make a high or very high contribution to their organization’s digital technology initiatives.

Digital technologies such as electronic invoicing networks boost profits by creating new business models, transforming startups into market leaders (and market leaders into irrelevance), accelerating the pace of change, rewriting the rules of competition, and blurring boundaries between verticals.

> “The challenge is the speed at which change can happen. Take Airbnb and Hilton. It only took Airbnb four years to build up a larger inventory of hotel rooms than Hilton Hotels built up in almost a century.”
>
> *Source: Laurence Buchanan, Ernst & Young digital leader.*

The Bottom Line

Revenue growth is hard to come by in today’s economic and business environment. As a result, businesses are looking for new ways to improve profitability. Accounts payable departments are playing a critical role in this effort. Migrating to an electronic invoicing network supports corporate profitability and growth by reducing accounts payable costs, improve efficiency, enhancing cash and working capital management, achieving transparent spend visibility, and increasing scalability and agility. Best of all, electronic invoicing networks deliver these benefits, regardless of the economy.

About 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 Tungsten Network also provides users with real-time spend analysis through analytics, and offers access to Early Payment, a form of alternative finance for businesses.

Tungsten Network serves 56% of the Fortune 500 and 67% of the FTSE 100. It enables suppliers to submit tax compliant e-invoices in 47 countries, and last year processed transactions worth over $187bn for organizations such as Alliance Data, Aviva, Cargill, Deutsche Lufthansa, General Motors, GlaxoSmithKline, Henkel, IBM, Kellogg's and the US Federal Government.

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.