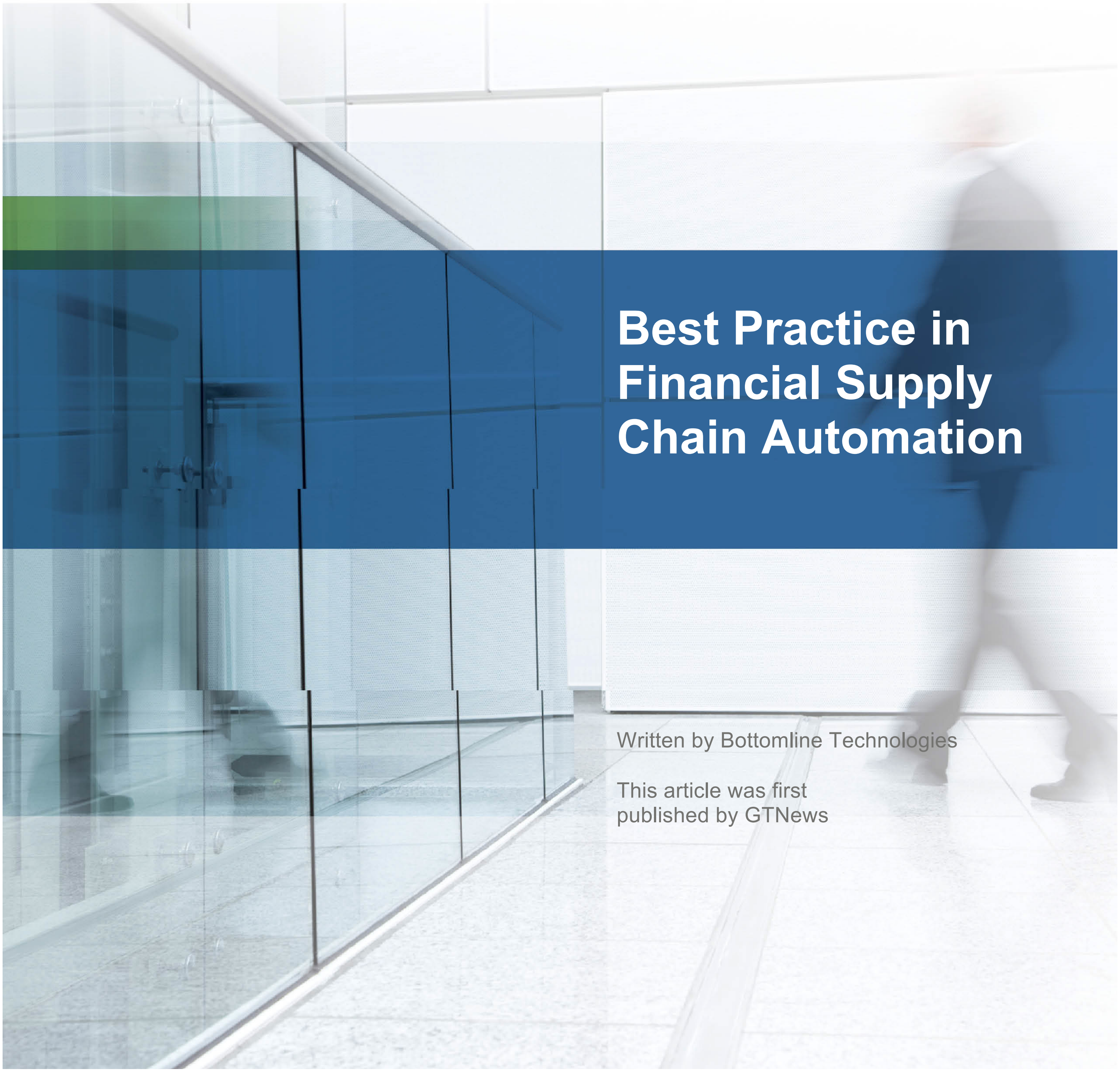

Best Practice in Financial Supply Chain Automation

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Even though technology solutions have been available for more than a decade, the adoption of financial supply chain (FSC) automation has been slow. Why are there still billions of paper invoices being processed annually within the European Union and the US alone?

Automation solutions began appearing on the market prior to the dotcom bust and by 2004 the FSC was a US$2bn industry and rising. But just as the category was taking off, the credit crunch hit and adoption slowed again.The last few years have forced corporates to exercise caution on project spending and yet the fragile nature of the extended supply chain has highlighted the need for automation of payables processes. With the scarcity of credit, the financial health of suppliers has become a strategic focus for buyers. This heightened awareness has manifested in a renewed interest in FSC automation as best-in-class organisations begin to understand and appreciate the impact of the efficiencies achieved through payables automation.

The relatively slow adoption of automation solutions can be traced to a variety of causes. The marketplace is fragmented - various technology providers have taken differing approaches on what functions should be the foundation of their solutions, be it scanning, data capture, workflow, dispute resolution, travel and expense, or payments. While solving their customers' tactical needs and leveraging their particular expertise, the lack of standardisation created disparities and incompatibility among solutions.

What is different now? Early adopters are seeing returns on their investment of FSC automation solutions and are heralding the success. The technology has improved and the software has matured to the point where it is more reliable. The value of automation is now much better understood by both buyers and suppliers, driving the product adoption cycle beyond early adopters. Yet, even with the development of new functionality and services around FSC automation, the best-practice fundamentals remain the same.

Remove Paper from the Process

Paper is still the biggest barrier to automation. Accounts payable (A/P) processes are overrun with it. The best approach to removing the paper depends on your organisation and specific requirements. Low-volume organisations are more suited to tactical scanning and capture solutions that push an invoice image for review via email, offering a semi-manual review process. Higher-volume organisations require a more sophisticated solution that calls for an advanced level of effort for installing, maintaining and using the system. In this case, a more fully-automated solution with intelligent business rules, approval structures and payment capabilities would be more appropriate.

One of the more popular technologies for scanning, optical character recognition (OCR), is effective, but does not come without challenges. It requires a new skill set and many of the efficiencies gained are limited by the need for manual corrections. Some service providers now offer outsourced models that not only scan and repair data, but also extract the data to the buyer organisation as actionable information. These services are compelling because they place the data-capture labour, capital equipment expenses and maintenance costs on to the service provider, who has the scale and expertise to make this approach cost effective.

Accounts receivable (A/R) is also not free of paper. Enormous efficiencies and savings can be realised through the automation of payments and remittance information. Although European companies are years ahead of many US companies in the adoption of electronic payments, they could certainly benefit by adopting electronic remittances. Supplier payment networks are now helping to facilitate broader adoption of these capabilities and will likely be an important factor in further automation of the FSC. Not only do these networks enable suppliers to get paid quickly and securely, protecting their accounts from fraud, they also provide detailed remittance advices in the format required by the suppliers to achieve easier reconciliation, freeing up credit limits and reducing risk.

Invoicing Must Be Part of the Process

As the functionality of available solutions improves, electronic invoicing (e-invoicing) continues to increase in popularity. Supply chain networks are gaining traction, and faster and easier supplier adoption is helping to drive up the value of these networks. Historically, suppliers resisted participation as they saw the requirement of joining multiple networks as a nuisance. However, the introduction of broader networks that are shared across multiple buyers and suppliers is helping to change this perception. The fastest-growing and most successful e-invoice and payment network providers are focused on making enrollment simple, reducing possible barriers to entry and enabling self-service where suitable. But these service providers also need to ensure that suppliers are carefully authenticated before on-boarding, in order to minimise the risk of fraud.

New services surrounding the use of these networks, such as invoice status updates, early payment through supply chain finance programs and remittance advice presentment, have all helped motivate supplier participation. Suggesting once again that the carrot is better than the stick, incentivising suppliers to join a network is usually more successful than a large buyer simply mandating that a certain network must be used.

It is likely that e-invoicing will spur the next wave of migration from paper to electronic payments. As previously mentioned, North American companies still rely heavily on cheques for business-to-business (B2B) payments. The advantages of moving from paper cheque to automated clearing house (ACH) are clear in terms of reducing costs and the risk of fraud. As networks grow to include a wider community of suppliers willing to accept secure electronic payments with some or all of the advantages described in the previous paragraph, then buyer adoption will accelerate accordingly.

The lack of standards around e-invoicing continues to hinder the ability of technology providers. Manual data mapping continues to be relied upon and this will likely be the case until a standard format is created. This variance has prompted the European Commission (EC) expert group on e-invoicing to recommend the UNCEFACT cross-industry invoice data model, which would of course have great merit but requires a massive migration effort. Initiatives in North America have had similar results - recommendations but little action.

Given the challenges that remain with e-invoicing, it is advisable for the foreseeable future for large buyers to retain access to invoice data capture solutions, either internally or outsourced for maximum efficiency, in order to handle invoices from those suppliers unable to produce e-invoices.

Pick Your Battles

Invoice approval workflow is still complex and there is likely to be a solution provider that can solve your every challenge. Before trying to do this, however, ask yourself if you actually need to solve every challenge. This may seem like a silly exercise, but taking the pragmatic 80/20 approach could be the difference between a five-and six-figure project.

Consider Software-as-a-Service (SaaS)

Saas is not a new concept, but is seeing increased adoption as internet security technology has improved significantly. Since all it requires is a web browser to access the solution (no hardware required), roll-out across enterprises is faster and requires no software installation. The application service provider is responsible for all infrastructure costs, performance benchmarks, guaranteed availability and data security. Providers can leverage economies of scale through their network of buyers and suppliers and pass those savings on to customers. Although some organisations are still reluctant to buy hosted solutions, the market is increasingly heading in the SaaS direction.

Don't Be Afraid to Think Big

The cash management benefits and efficiencies gained from automation are clear and compelling, in terms of improved visibility, efficiency and control. However, organisations must resist trying to solve only today's FSC process issues. Long-term thinking is required. As credit markets tighten, working capital optimisation becomes critical for every organisation. Negotiated discounts and payment terms can help optimise working capital - but without automation, these are impossible to realise 100% of the time. Accelerating invoice approval time frames is the basis for many automation solutions that enable suppliers to get paid quicker. No bank or A/P department will be able to make such early payments unless they have achieved a match between invoice, purchase order (PO) and, if possible, goods-received note. Only with this accelerated invoice approval process can a bank apply a more attractive rate to their client's selected suppliers. Through automation, organisations can support a broader group of suppliers and negotiate significant savings.

Find a Trusted Partner

Software suppliers are no longer the only providers of FSC automation solutions. Be sure to also talk to your bank about its investment in this area. Banks have increased their focus in this space to become involved at each step of the payables process, often through partnerships with proven technology solution providers. The most innovative programmes are leveraging approved invoices to offer lower-cost financing to suppliers in the form of reverse factoring. Bank-assisted open account solutions (based around bank payment obligations) can also help finance the production of goods through pre-shipment finance.

Although the adoption of FSC automation solutions has been slow, the time is right to take advantage of the benefits offered by this technology in terms of cost and risk reduction and improved working capital management. As payment and supplier networks grow, so will the opportunities increase for buyers and suppliers of all sizes to benefit. SaaS solutions will likely make that transition easier with their global accessibility and lower costs. But finding the right partner is imperative.