3 Ways High-Tech Firms Can Eliminate P2P Friction

An AP & P2P white paper

ACCOUNTS PAYABLE & PROCURE-TO-PAY
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In the fast-changing, hard-driving world of IT hardware and software, IT consulting and services, and high-tech businesses cannot afford to be bogged down by processes that cost too much, take too long, create too many exceptions, and provide inadequate visibility. But that's exactly the scenario when businesses in this space rely on antiquated, paper-based approaches to paying suppliers. Procure-to-pay (P2P) friction chips away at profit margins, strains supplier relationships, and impedes a high-tech firm's ability to identify and take advantage of financial opportunities.

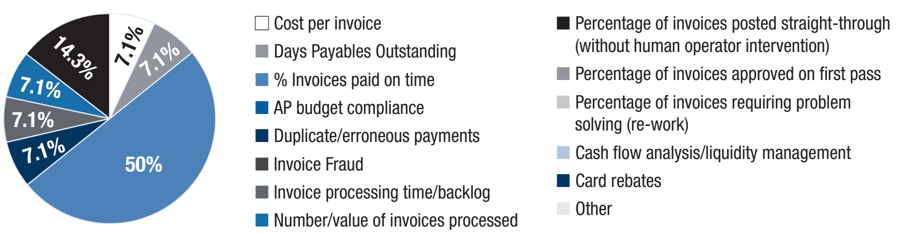
This white paper illustrates the impact of P2P friction on IT hardware and software, IT consulting and services and high-tech firms. Based on the findings of a study conducted by the Institute of Finance and Management (IOFM) and Tungsten Network, this white paper reveals the primary causes of P2P friction in this space, how high-tech firms are eliminating friction in their P2P cycles, and the benefits businesses achieve from frictionless processing.

Eliminating P2P Friction

Eliminating P2P friction is a top priority of IT hardware and software, IT consulting and services, and high-tech firms. Half of the survey respondents identified the percentage of invoices paid on-time as their most important accounts payable metric. Fourteen percent of survey respondents cited the percentage of invoices posted straight-through, with no operator intervention, as their most important accounts payable metric. Other accounts payable metrics that are important to survey respondents include cost per invoice, Day's Payable Outstanding, duplicate and erroneous payments to suppliers, invoice processing cycle times and backlog, and invoice processing volume.

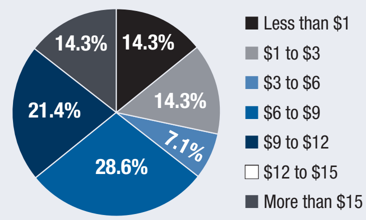
Friction in the P2P cycle significantly impacts all these accounts payable metrics.

Which of the following is the most important metric to your AP department?

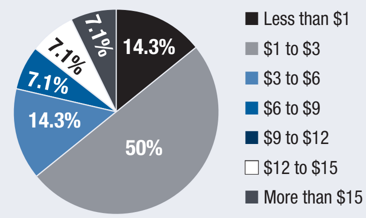


It costs most survey respondents more than $6 to process a single paper invoice, including any costs for mailroom, couriers, scanning, indexing, archiving. More than one-quarter of survey respondents spend between $6 and $9 to process a single paper invoice, while 21.4 percent of survey respondents spend between $9 and $12. Worse, 14.3 percent of survey respondents spend more than $15 to process a single paper invoice.

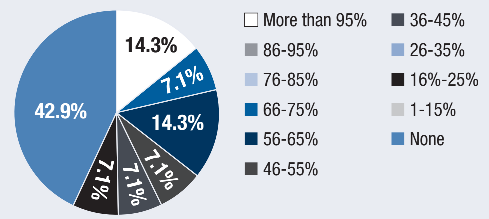
What is your average cost to process a paper invoice?
(including any costs for mailroom, couriers, scanning, indexing, archival)



What is your average cost to process an electronic invoice?
(i.e. invoice that arrives via Electronic Invoicing, Electronic Invoicing Network, Supplier Self-Service Portal – no image, e-mail or fax)



What percentage of your paper invoices are approved and posted straight through?
(with no human operator intervention)?



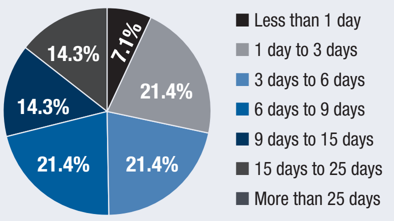
Receiving invoices electronically reduces the invoice-processing costs of businesses in this space. Most survey respondents spend less than $3 to process an invoice that arrives via an electronic invoicing solution, an electronic invoicing network, or a self-service web portal for suppliers. Some 14.3 percent of respondents spend less than $1 to process an electronic invoice.

The high cost of processing paper invoices can be attributed to the fact that survey respondents are manually handling most of the paper invoices they receive. Without automation, accounts payable departments must manually key header and line-item information from paper invoices, validate paper invoices against data in an enterprise resource planning (ERP) or general ledger (GL) system, match invoices against a purchase order and/or a delivery receipt, determine the purchaser if no purchase order exists, physically route paper invoices for approval and exceptions resolution, and input data on approved invoices into an ERP or GL system for payment. Only 35.7 percent of survey respondents post most of the paper invoices they receive straight-through, with no operator intervention. Some 42.9 percent of survey respondents do not post any of the paper invoices they receive straight-through, with no operator intervention. Seven percent of survey respondents post between 16 percent and 25 percent of the paper invoices they receive straight-through, with no operator intervention.

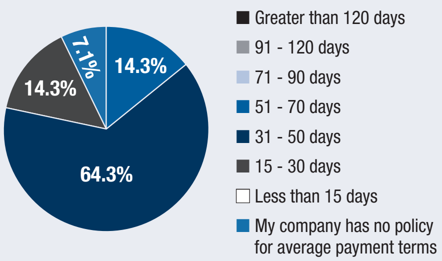
The impact that friction has on P2P cycles in this space also is illustrated by one-third of survey respondents identifying invoice approval cycle times and exceptions resolution as their biggest accounts payable challenges. Processing paper invoices and resolving exceptions is a time-consuming task, without automation. Half of the respondents said it takes their accounts payable department more than 6 days to process a paper invoice (from receipt of invoice to approval for payment). One-quarter of respondents spend between 9 days and 25 days to process a paper invoice.

Extending payment terms is one way that businesses manage slow cycle times. Compared to two years ago, twice as many survey respondents have average payment terms of between 51 days and 70 days. Moreover, the percentage of survey respondents with average payment terms of between 31 days and 50 days has increased 14.3 percent over two years ago. Not surprisingly, the percentage of survey respondents with average payment terms of between 15 days and 30 days has declined by 21.4 percent compared to two years ago. With these changes, the average payment terms of most IT hardware and software, IT consulting and services, and high-tech firms exceed the average 30-day payment terms of businesses in North America, per the Association for Financial Professionals.

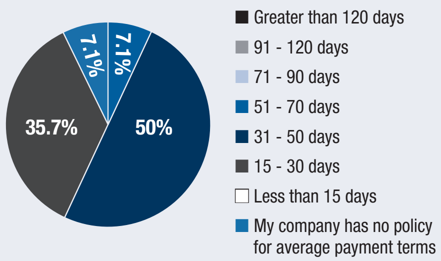
What is your average cycle time for paper invoices?
(from receipt of invoice to approval for payment)



What is your company's policy for average payment terms?



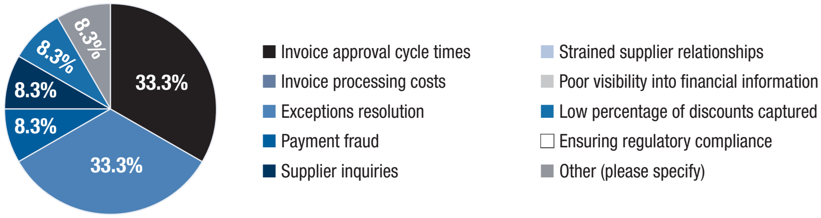
2 years ago, what was your company's policy for average payment terms?



But suppliers to IT hardware and software, IT consulting and services, and high-tech firms can take comfort in knowing that only 7.1 percent of respondents said their organization plans to extend its average payment terms within the next 18 months. Some 42.9 percent of respondents said their organization has no plans to extend its payment terms, while 35.7 percent of respondents were not sure. Fourteen percent of respondents said their organization has no standard payment terms.

Beyond invoice cycle times, other accounts payable challenges identified by survey respondents include supplier inquiries, a low percentage of early payment discounts captured, and payment fraud.

Which of the following is the single biggest challenge to your accounts payable department?



Reducing P2P friction addresses all these challenges.

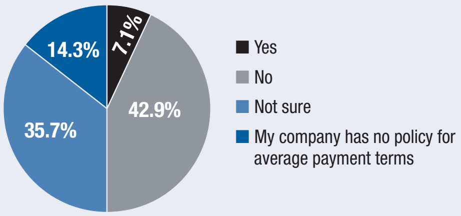
Frictionless Processing Strategy #1: Eliminating Paper

IT hardware and software, IT consulting and services, and high-tech firms are reducing P2P friction by receiving more invoices electronically compared to their peers in other industries. Only 13.4 percent of respondents receive most of their invoices from suppliers as paper. One-fifth of the respondents do not receive any of their invoices from suppliers as paper, and twenty percent of the respondents receive between 1 percent and 9 percent of their invoices from suppliers as paper.

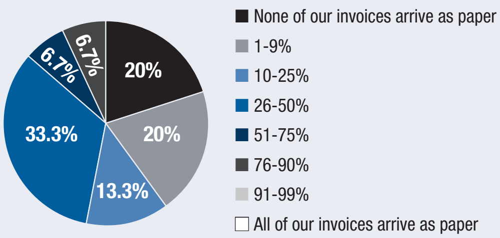
Most of the survey respondents receive most of their invoices via a file such as a spreadsheet data upload or a PDF email attachment. Electronic invoicing solutions and other technologies can post these files straight-through, with no operator intervention. Nearly half of all respondents receive between 51 percent and 99 percent of their invoices via a file such as a spreadsheet data upload or a PDF email attachment. Some 16.7 percent of respondents receive all their invoices as a file.

The benefits of receiving invoices electronically can be seen in the relatively high percentage of invoices that high-tech firms post straight-through, with no operator intervention. Respondents post 35.6 percent of the electronic invoices they receive straight-through, with no operator intervention. What's more, more than one-fifth of the respondents post between 46 percent and 55 percent of the electronic invoices they receive straight-through, with no operator intervention.

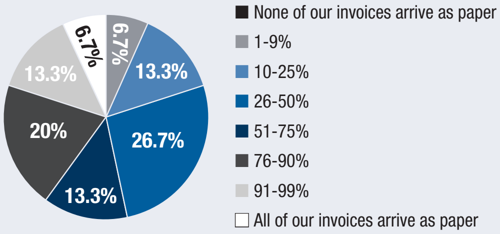
Does your company plan to extend its payment terms within the next 18 months?



What percentage of the invoices that your accounts payable department processes annually is paper-based?



What percentage of the invoices that your accounts payable department processes arrive as a file?
(e.g. Excel data upload, PDF, etc.)



While 28.6 percent of respondents said they do not post any of the electronic invoices they receive straight-through, these organizations may not have electronic invoicing technology, as our results later will show.

Compared to paper invoices, it also takes much less time for IT hardware and software, IT consulting and services, and high-tech firms to process invoices received electronically from suppliers. Processing invoices electronically eliminates friction by automating the receipt and validation of invoices, the extraction of header and line-item information, the matching of invoices with purchase orders and/or proof-of-delivery documents, the routing and tracking of invoices for approvals and exceptions handling, and the posting of data on approved invoices to an ERP or GL system.

Half the respondents require less than 3 days to process an invoice received electronically from suppliers. Some 7.1 percent of the respondents process invoices received electronically in less than one day.

Frictionless Processing Strategy #2: PO-Backed Invoices

Backing invoices with a purchase order is another way that IT hardware and software, IT consulting and services, and high-tech firms are reducing friction in their P2P cycles. Matching invoice data with purchase orders eliminates the need to bounce from system to system or to track down purchasers to validate invoice header and line-item information such as price, quantity and due date. Nearly three-quarters of survey respondents reported that most of the invoices they receive are backed by a purchase order. More than one-quarter of survey respondents stated that more than 95 percent of their invoices are backed by a purchase order. Twenty-one percent of respondents said that between 76 percent and 85 percent of the invoices they receive are backed by a purchase order.

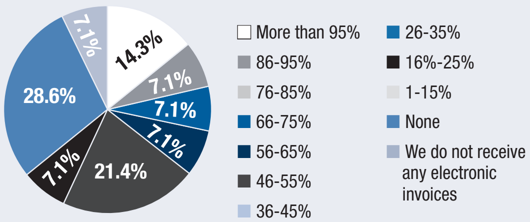
Frictionless Processing Strategy #3: Automation

IT hardware and software, IT consulting and services, and high-tech firms are using a wide range of technologies to eliminate friction from their P2P cycles. Wire transfer is the most widely used P2P technology, identified by three-quarters of survey respondents. Two-thirds of the survey respondents pay suppliers via the Automated Clearing House (ACH) Network. Fifty-eight percent of the survey respondents use document imaging as part of their invoice processing.

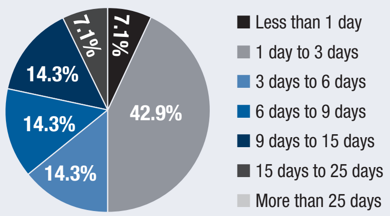
Electronic invoicing is also among the technologies that survey respondents are currently using to eliminate friction in their P2P cycle. Forty-one percent of survey respondents stated that they use an electronic invoicing solution, while 16.7 percent of survey respondents use an electronic invoicing network and 8.3 percent of survey respondents use a self-service web portal for suppliers.

None of the respondents that currently use an electronic invoicing solution, an electronic invoicing network, or a self-service supplier portal report that they are dissatisfied or highly dissatisfied with the technology.

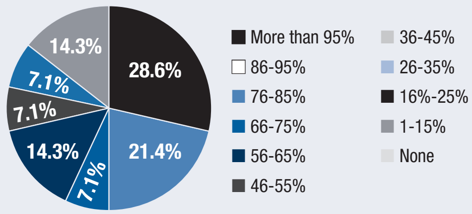
What percentage of your electronic invoices are approved and posted straight through?
(with no human operator intervention)



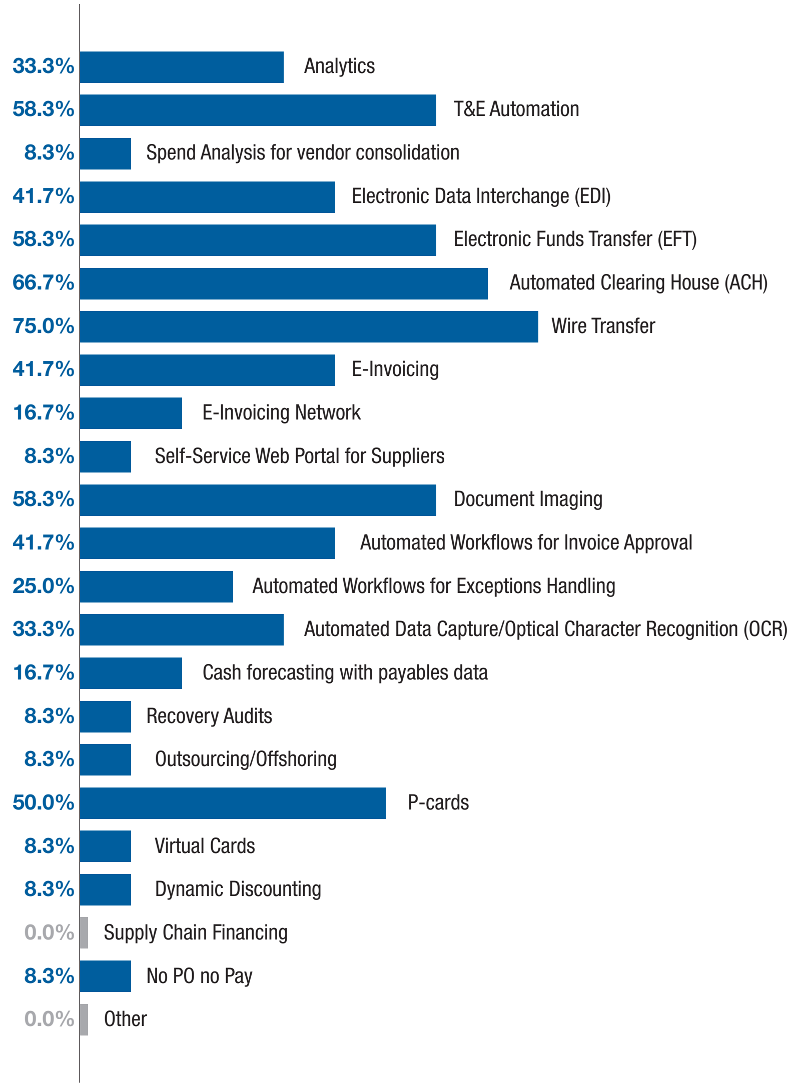
What is your average cycle time for electronic invoices?
(from receipt of invoice to approval for payment)



What percentage of your invoices are PO backed?



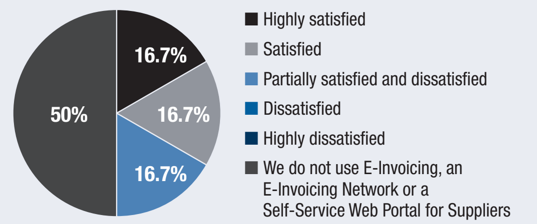
Which of the following does your organization currently use?



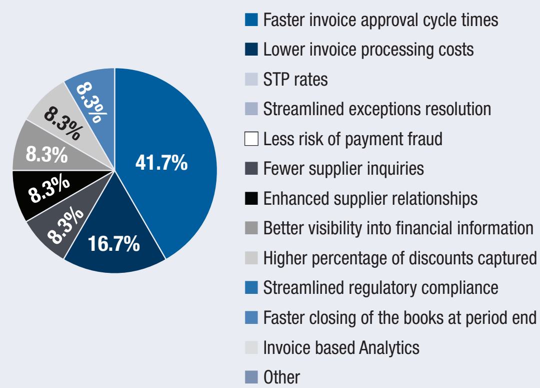
Some 16.7 percent of survey respondents are highly satisfied with the technology.

Making invoice approval cycles faster is the biggest benefit of an electronic invoicing solution, electronic invoicing network or self-service supplier portal in the eyes of IT hardware and software, IT consulting and services, and high-tech firms. Electronic invoicing eliminates most of the friction in invoice approvals by automatically receiving and validating invoices, extracting invoice header and line-item data, matching invoices to purchase orders and/or proof-of-delivery documents, routing invoices for approval and exception-handling, and seamlessly posting information on approved invoices to an ERP or GL system. Some 16.7 percent of survey respondents identified lower invoice processing costs as the biggest benefit of electronic invoicing.

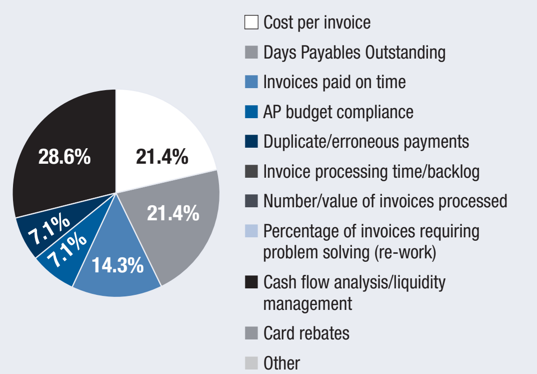
What is your organization's level of satisfaction with the E-Invoicing, E-Invoicing Network or Self-Service Web Portal for Suppliers solution(s) that it currently uses?



Which of the following do you believe is the single biggest benefit of E-Invoicing, an E-Invoicing Network, or a Self-Service Supplier Portal?



Which of the following is most important to your senior management?



Other benefits cited by respondents included fewer supplier inquiries, enhanced supplier relationships, better visibility into financial information, more opportunities to capture early-payment discounts, and faster closing of the books at period end.

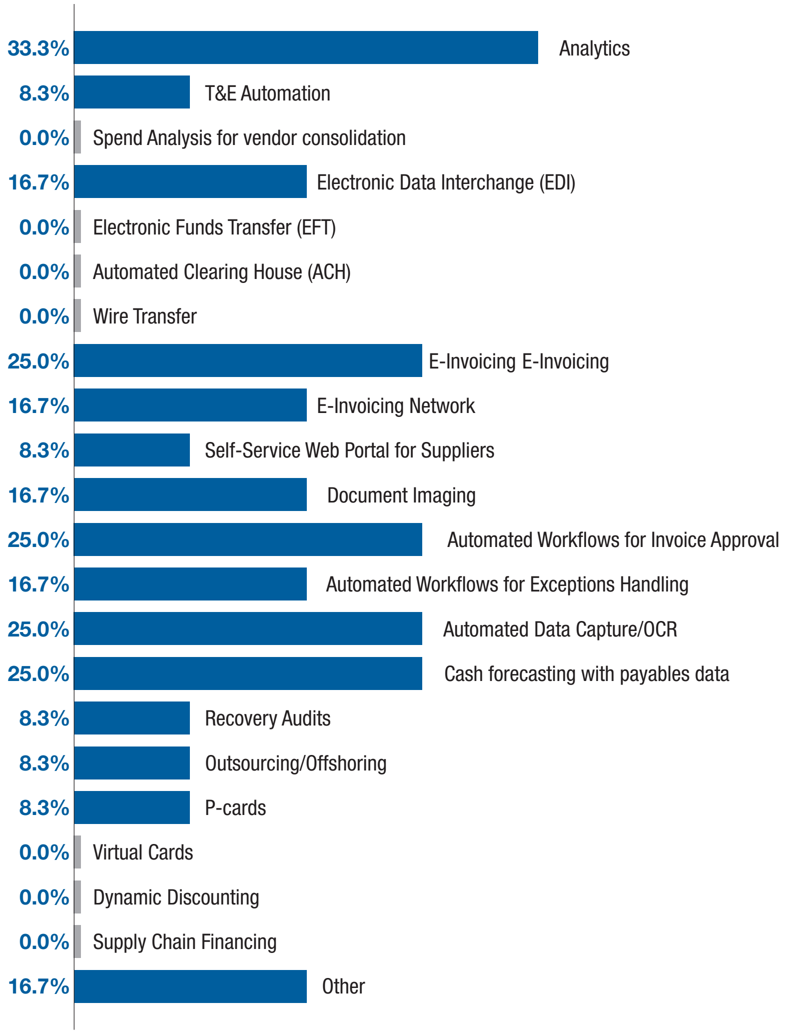
Business analytics top the list of automation priorities for IT hardware and software, IT consulting and services, and high-tech firms. Analytics enable buyers to improve procurement controls, ensure contract compliance, and reduce their cost of goods and services. Analytics provide ready insights into 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 product or service, allowing for end-to-end tracking and traceability. Dashboards allow users to model the implications of different purchasing decisions.

Similarly, one-quarter of the IT hardware and software, IT consulting and services, and high-tech firms surveyed rank cash forecasting with payables data among their top automation priorities.

Considering that firms in this space are prioritizing technologies for business analytics and cash forecasting, it is no surprise that survey respondents identified cash flow analysis and liquidity management as the most important metric to senior management. Moreover, one-quarter of survey respondents said DPO was the most important accounts payable metric to their senior management.

Electronic invoicing solutions, invoice approval workflows, and automated capture of invoice data round out the top automation priorities of firms in this space – each identified by 25 percent of respondents. Some 16.7 percent of survey respondents identified electronic data interchange, an electronic invoicing network, invoice scanning, and invoice exceptions workflows as top priorities.

Which of the following are among the top automation priorities for your organization in 2017?



Early Payment Discount Capture

Reducing P2P friction provides a broad range of benefits, from reduced costs and faster cycle times, to fewer duplicate and erroneous payments and enhanced visibility into financial data.

The ability to capture early payment discounts offered by suppliers is another way that eliminating friction in the P2P cycle is paying big dividends for businesses in this space.

Some suppliers are willing to exchange a discount on the amount due on an invoice for early payment; the sooner the payment, the larger the discount a supplier will offer. Sixty-four percent of survey respondents stated that they receive invoices with early payment discount offers. Fourteen percent of respondents reported that between 60 percent and 95 percent of the invoices they receive from suppliers include an early payment discount offer.

Half of the respondents stated that between 1 percent and 39 percent of the invoices they receive include an early payment discount offer.

Businesses that take advantage of modest early-payment discount can earn an annualized 18 percent return – a lot more than they can earn from a typical interest-bearing bank account. Nearly two-thirds of respondents stated that they capture early payment discounts offered by suppliers. Twenty-eight percent of respondents capture most of the early payment discounts offered by suppliers. Some 14.3 percent of survey respondents capture more than 95 percent of early payment discounts offered.

Conversely, 35.7 percent of survey respondents do not capture any early payment discount offers.

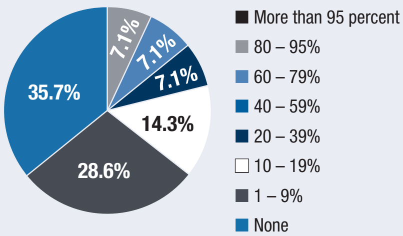
Interestingly, only 8.3 percent of the respondents have technology for dynamically making early payment discount offers to suppliers, and no respondents have technology for supply chain financing.

Capturing early payment discounts is helping IT hardware and software, IT consulting and services, and high-tech firms significantly reduce their cost of goods and services. More than one-fifth of respondents stated that they are capturing average early payment discounts of between 4 percent and 6 percent. Some 14.3 percent of respondents are capturing discounts of more than 9 percent. These discounts would not be possible without eliminating friction from the P2P cycle.

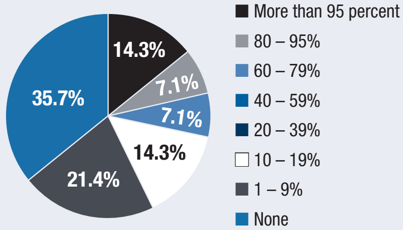
Conclusion

IT hardware and software, IT consulting and services, and high-tech firms need every advantage to win in the highly competitive technology market. Eliminating P2P friction enables high-tech firms to pay suppliers faster, more accurately, more cost-effectively, and with better reporting and analytics. As a result, high-tech firms can increase profit margins and net income, strengthen relationships with key suppliers, and more quickly identify and act upon financial opportunities. Businesses that rely on antiquated P2P processes risk falling behind their competitors.

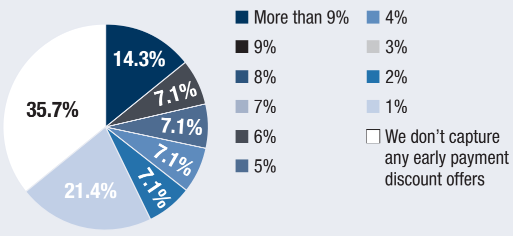
What percentage of the total invoices that your company receives include an early-payment discount offer?
(made on the invoice by the supplier)



What percentage of early payment discount offers does your company currently capture?



Rounding off to the nearest whole number, which of the following represents the average early payment discount that your company currently captures?



About the Survey Respondents

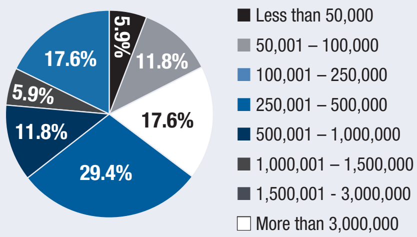
Most IT hardware and software, IT consulting and services, and high-tech firms process more than 250,000 invoices per year. Twenty-nine percent of the respondents reported that their organization processes between 250,001 invoices and 500,000 invoices annually. Nearly one-in-five of the survey respondents (17.6 percent) process more than 3 million invoices per year, while 11.8 percent of the survey respondents process between 500,001 invoices and 1 million invoices per year and 5.9 percent of the survey respondents process between 1 million invoices and 1.5 million invoices annually. Thirty-four percent of survey respondents process less than 250,001 invoices annually.

All the IT hardware and software, IT consulting and services, and high-tech firms that responded to the survey said their accounts payable organization operates as a centralized, separate department or as part of a regional, multi-regional or global shared services center. Forty-six percent of the survey respondents said their accounts payable organization operates as a centralized, separate department. Twenty-percent of the respondents stated that their accounts payable organization operates as part of a regional shared services center while one-third of the survey respondents said their accounts payable department operates as part of a multi-regional or global shared services center. Operating accounts payable as part of a shared services center enables businesses to achieve economies of scale, consolidate systems, increase visibility into accounts payable information, ensure adherence to policies and procedures, and develop a Center of Excellence for accounts payable processing. One-fifth of the survey respondents describe their shared services model as being “mature.”

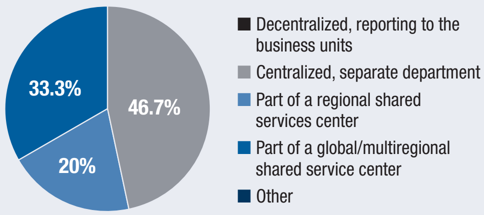
One-third of the survey respondents reported that their organization currently outsources its accounts payable function or is preparing to outsource. Twenty-percent of the survey respondents stated that their organization has outsourced its accounts payable function for more than five years. Some 6.7 percent of the survey respondents said their organization has outsourced its accounts payable function for less than five years. Another 6.7 percent of respondents said their organization is planning to outsource its accounts payable function.

Respondents are based in China, Germany, India, Ireland, the Philippines, and the United States.

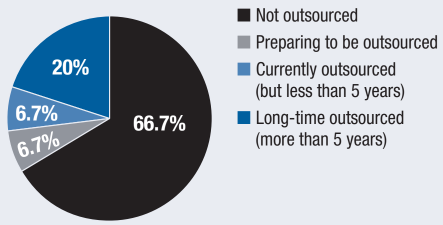
How many invoices are processed by your organization’s accounts payable department each year?



Which of the following best describes your AP organization?



Is your AP function currently outsourced?



About Tungsten Network

Our vision is 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, purchase order services and workflow platform that brings businesses and their Suppliers closer together with unique technology that revolutionises invoice processing, maximises efficiency and improves cash flow management. Delivering trusted connections and streamlined transactions, the network also provides users with real-time spend analysis and offers Suppliers access to invoice financing through Tungsten Network Finance, a form of alternative finance for businesses.

Tungsten Network processes invoices for 76% of the FTSE 100 and 66% of the Fortune 500. It enables Suppliers to submit tax compliant e-invoices in 48 countries, and last year processed transactions worth over £155bn for organisations such as Alliance Data, Cargill, Deutsche Lufthansa, General Motors, GlaxoSmithKline, Mondelēz International, Henkel, IBM, Kellogg's and the US Federal Government.

Trusted, passionate and proven, Tungsten is making the digitisation of global commerce between Buyers and Suppliers faster, easier and smarter.

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.