



A Defining Moment for EIPP



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Electronic invoice presentment and payment (EIPP) enables suppliers to deliver invoices to buyers electronically, via the Internet. Buyers may then view the electronic invoices, approve and pay them. A good EIPP system provides partial payment options and online dispute management capabilities as well as the ability to download invoice and payment information into an ERP or other in-house system. Ideally, EIPP is integrated with

online payment methods such as direct debit and credit cards, as well as other cash management solutions such as receivables matching services, and lockbox services.

Most corporate treasury and finance departments are aware of electronic invoice presentment and payment services and the related benefits, yet to date, EIPP has not been widely adopted. This is now changing. A recent EIPP survey conducted in 2003 by GTNews found that 45% of companies that have not yet implemented EIPP are planning to do so in the next 12 months.

As companies face pressures to reduce costs and increase control, they are recognising the value of EIPP in reducing their days sales outstanding (DSO). In addition, new EIPP models are emerging and EIPP users are recognizing a broader range of benefits. For companies that wish to reap the wide-ranging benefits of EIPP, minor, surmountable challenges still remain; they must cope with perceived obstacles to adoption.

Evolving Models

EIPP (also known as e-billing) began as a one-to-many, supplier-led initiative where buyers were routed to a supplier's website to view their invoices online.

Soon came the consolidator model where a third party acted as an aggregator of invoices for multiple suppliers. This third party consolidator could be an independent company acting as an exchange or alternatively the parent company of multiple subsidiaries. The consolidator model allowed buyers the convenience of accessing a

single website to see invoices from different suppliers or a supplier's subsidiaries.

More recently, a buyer-centric model has evolved, promoted by buyers who already receive invoices electronically from some of their suppliers as well as by those working to improve their incoming financial supply chain and supplier/vendor relationships. This model routes invoices to the buyer's preferred environment and on to accounts payable (A/P) and procurement systems rather than to the supplier's accounts receivables (A/R) system as in the two first models.

The preferred EIPP model will depend on a company's ability to initiate change in its market as well as on the extent and maturity of its e-financial supply chain. Ideally, a company should use the same standards and technology for both incoming and outgoing invoices. That said, technology platforms for seller-centric models are currently more advanced than for buyer-centric models.

Wider Benefits are Recognised

In early days, EIPP was implemented mainly to improve internal processes and reduce paper costs. More recently additional - and more attractive - benefits have been validated by customer experience and research, showing that EIPP can:

Improve working capital management by reducing DSO

EIPP promotes partial payments when disputes occur and makes it much easier for buyers to take advantage of early payment discounts. As a result, suppliers find they are able to reduce DSO and collect funds more quickly.

Reduce processing and customer service costs

EIPP allows suppliers to present invoices on the same day they have been generated. This represents a radical change from the past, especially for suppliers that have cross-regional invoicing needs and customers in remote locations. In most cases, EIPP eliminates the costs of printing and posting, handling disputes, and processing incoming payments. It also provides the supplier with more information about the payments and invoices for reconciliation purposes. According to Killen & Associates "Typical billion-dollar companies spend approximately \$27 million each year unnecessarily on inefficient processing because they lack visibility of their financial supply chain and receivables."

Improve customer service and relationships

EIPP enables buyers to improve their process for managing incoming invoices. They may choose to download information directly into their ERP system, or use the workflow and online payments capabilities of the EIPP system itself to process their invoices. They may initiate and manage disputes online rather than by telephone (which is inefficient and typically requires call-backs).

Enhance credit control and reconciliation of payments

The use of an EIPP solution allows suppliers to have precise, on-time information about their buyer's payment history and invoice payment details. Companies can use this information to improve credit policies and avoid unnecessary credit checks, and to simplify the cash application process.

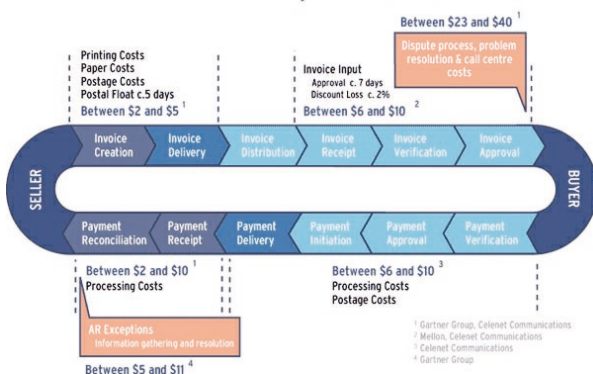
Making the Business Case

Those who see the potential of a new way of working must not only convince others of the benefits, but also remove perceived obstacles to adoption.

Obstacle #1 : Unknown cost structure

To make a clear business case for EIPP investment, sponsors must understand the company's internal cost structure and break down the elements of the invoicing and accounts receivable process. Since several areas are involved in the order-to-cash cycle, it is possible that the costs of a transaction end to end have never been measured. By doing this analysis, the project sponsor will help to build a clear business case and identify achievable objectives for each of the business areas involved. In some countries where paper is still required, companies can already realise many of the benefits of EIPP. For example, they can use EIPP to resolve disputes more quickly, and use a duplicate electronic invoice to lower the cost of invoice delivery. (They can agree with customers to send all paper invoices once a month and thereby compensate for issues with the mail system.) The cost structure and benefits for all relevant geographies must be fully analysed to obtain a realistic picture of expected benefits and savings.

The Costs of Processing an Invoice End-to-End



Obstacle #2 : Market confusion

To date, the market has been crowded with EIPP solution providers, but at last the choices are becoming clear; banks are now preferred providers of EIPP solutions.

Gartner Group surveys show that in the year 2000, 10% of companies/respondents selected banks as their preferred EIPP provider, while in 2001, 37% selected banks as their preferred EIPP provider (against 38% for technology firms).

There are two principal reasons why banks are best placed to provide EIPP solutions. Unlike many technology companies, banks are committed to the payments/collections business for the long-term and can therefore provide continuity of service. Secondly, the full value of EIPP lies in completing the transaction end-to-end including presentment, dispute, payment and reconciliation. Payables and receivables management is a core competency of banks.

Obstacle #3 : Buyer resistance

Companies sometimes employ the argument that the benefits to the buyer are not compelling enough to make them change their current processes and adopt EIPP. Citibank's experience implementing EIPP on behalf of suppliers shows that buyers welcome these solutions as long as changes are presented clearly and in a co-ordinated manner. Ensuring a dedicated team is in place to handle customer relations during implementation is a critical factor in increasing adoption. For a US\$ 1B+ company realistic adoption rates are typically 5% during the first year, 20% during the second year and up to 50% by year three.

Obstacle #4 : Legacy EDI investments

Companies that have made investments in electronic data interchange (EDI) may be reluctant to change. Compared with EDI, EIPP is easier to implement and therefore more accessible to more of the buying community, so should lead to greater automation. In addition, EIPP addresses needs and features (such as disputes and reconciliation) that are not handled well by EDI or, in many cases, by ERP systems.

The Moment is Right

Early adopters have made the business case and demonstrated the benefits of EIPP. Some of these are key players with influence across their industries. On the provider side, the market has consolidated and banks have proved they have the core competencies and global reach to deliver the most effective solutions. The technology for EIPP has matured and is now being fine-tuned.

So the prerequisites are in place to remove the obstacles to rapid adoption of EIPP. And, as companies continue to look for real savings and the efficiency benefits of end-to-end processing in their back-offices, the moment may be right for EIPP to finally take off.

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