

# Electronic Invoice Presentment and Payment: The More Complex the Invoice, the Greater the Benefit

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## Catalyst

Client discussions

## Question

What value are payers finding in their electronic invoice presentment and payment (EIPP) solutions?

## Answer

Corporations receiving a large quantity of bills, particularly complex ones, will find that EIPP offers many advantages. Buyers using EIPP are able to process invoices more efficiently, save money by not paying erroneously billed items and services, and take discounts not previously available. Invoice data also enables more strategic management of suppliers. Although the specific ROI time line varies based on complexity and supplier adoption, companies are discovering payback within the first year of their implementation. Home Depot, for example, met its ROI objectives within six months of implementing **DataCert's** e-billing product, which is used exclusively for legal invoices. Fortune 500 energy companies using SpendWorks, a **TransZap** solution for the gas and petroleum industry, have reduced their invoice processing time from between 66 percent and 75 percent. Companies using **Digital Oilfield's** OpenInvoice find that they recoup savings close to 1 percent of their total spend on newly available discounts alone.

When EIPP was first introduced a few years ago, it was supplier-focused. However, overtime, corporate demand and the need for cost-cutting and more efficient processing has shifted the focus from suppliers to buyers and the accounts payable function. Corporations seek improved, consistent back-office processing and find that by migrating to EIPP, they are able to process invoice volumes that were previously impossible thanks to the automation that EIPP offers. This is particularly true for highly specialized service industries — such as legal and petroleum. EIPP makes processing these complex and lengthy invoices much simpler. Many firms have confessed that prior to implementing EIPP they simply approved and paid invoices, as either the volume or complexity of the invoices did not allow ample time for analysis or processing — even within 45 to 60 days. In other cases, payment was up to 120 days late, causing financial challenges for their suppliers. Cash discounts were rarely, if ever, taken in the services industries.

EIPP has given buyers the ability to pay only for authorized purchases and services at agreed-on prices. Due to the incorporation of business rules into the process, the EIPP solutions identify missing invoice data and return the invoice to the supplier for completion prior to review. In some cases, the EIPP solutions identify erroneously billed invoices and items by incorporating two- and three-way matching capabilities (i.e., receipts, purchase orders). In the case of more service-oriented industries, such as legal and petroleum, invoices are matched to contracts, matters or field tickets as part of the approval process to validate the invoice. In 2003, a major retailer's legal department saved \$2 million in legal bills alone by identifying and not paying erroneous expenses and invoices. Another company found that 3.2 percent of all its invoices required expense adjustments and another 1.5 percent had fee adjustments, resulting in actual savings to the company. Two companies using the **Xign** EIPP product have also seen better-than-expected results. One large retailer found that it achieved its EIPP FTE goals in the first six months of implementation;

Armstrong\Worldwide Industries achieved 88 percent of its three-year FTE goal within the first year, using its Xign EIPP solution along with its evaluated receipt settlement (ERS) and consignment processes. (Note: ERS refers to the process in which the receiver or payer creates an invoice based on the goods received and the purchase order price, which is processed and paid as an invoice; the supplier never submits an invoice to the customer. Consignment is similar to ERS except that it is based on quantity used — versus the quantity supplied.) Armstrong also achieved its primary goals, such as the percent of its suppliers paying electronically and the elimination of corresponding paper, earlier than expected.

Companies not currently participating in EIPP should plan to evaluate it. Implementation should be based on the volume and complexity of invoices. Suppliers and customers are already demanding electronic channels, and CFOs will soon be demanding them as well. Recognize, however, that EIPP is likely to coexist with other means, such as electronic data interchange (EDI), ERS and consignment. While some suppliers are holding out to get their customers to agree to a supplier-initiated ACH debit, this is unlikely to happen because most corporate customers are not willing to do wait. Corporate payers want to control the release of their funds to their suppliers.

Companies undertaking an EIPP project should first begin by examining their pricing or billing agreements and making sure they have the right contact information for their suppliers. Both of these tasks can be more arduous than they initially appear and have the potential to delay the implementation. The absence of standards in the organization can make billing more challenging than necessary, and the handling of discounts can lead to confusion — the data often is presented net of the discount and discounted, making consistent validation challenging. Organizations need to set attainable goals to motivate staff throughout the organization. One company reported that its success was contingent on the corporate objectives being high, but obtainable. It also attributed its success to support from its vendor.

Think big, but start small when it comes to integration. Although it is required with other applications, start instead with the most time-consuming activities required for validation. For example, most corporate legal departments integrate their matter management systems to enable billing verification and validation. Both TransZap's SpendWorks and Digital Oilfield's OpenInvoice enable the scanning of field tickets or data entry of field ticket data for invoice validation. Most generic EIPP applications facilitate receipts and purchase order matching. Although the ultimate goal is to provide an electronic file to accounts payable, some firms have started by initially sending PDF files while working on a full-fledged ERP integration. This alone can result in significant savings. One company found that it was able to shift two accounts payable clerks to more critical areas simply by receiving a PDF file that accounting could use for data entry, versus having to touch and interpret each and every invoice.

## Vendors

**EIPP:** BCE Emergis, Bottomline Technologies, Direct Commerce, iPayables, Open Business Exchange, Velosant (previously Billing Zone) and Xign all offer general EIPP products and can convert most invoices to electronic.

**Legal billing:** Bottomline Technologies also offers a legal e-billing service as do Computer Sciences Corporation (CSC) and DataCert.

**Oil industry:** Digital Oilfield and TransZap serve the upstream petroleum industry, which focuses on exploration and production.