A Special Report from
The Accounts Receivable Network

Moving to Electronic Invoicing

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Table of Contents

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Electronic Invoicing: What Is It?

The electronic delivery of invoices goes by several names—electronic invoicing, e-invoicing, e-billing, and electronic invoice presentment and payment (EIPP). Basically, e-invoicing can be defined as a transaction document containing billing information that is presented in an electronic format.

What Is the Current E-Invoicing Landscape?

A recent study conducted by NACHA's Council for Electronic Billing and Payment (CEBP) and PayItGreen suggests that in five years, e-invoices will be more widely used than traditional paper bills.

The NACHA CEBP and PayItGreen study quantified the size of the electronic invoicing market, indicating that a total of 5.1 billion e-invoices were delivered in 2010 alone, and that number will grow exponentially.

Some customers are adopting more slowly than others. Nine of ten of the companies surveyed in the NACHA study rate e-invoicing adoption to be a "significant opportunity" for their organizations. Yet, while e-invoicing is gaining momentum, it has not reached its full potential, reveals NACHA.

Customers' payables departments are swimming in paper, reports PayStream Advisors. Paper is by far one of the biggest pain points for your customers' AP operations. Paper invoices sit on desks, get stuffed into drawers, and end up missing. Data often must be manually input, introducing errors while slowing the process. Customers often do not pay on time because they can't. Paper slows payment. PayStream identifies the following problems with paper for AR and AP Departments:

- manual processing
- missing documents
- storage costs
- inaccessibility of records
- deficient process controls
- duplication of effort
- unproductive time

Research from The Aberdeen Group, AIIM, Computerworld, Esker, Forrester, The Gartner Group, PricewaterhouseCoopers and The Accounts Receivable Network point out that:

- Currently, only one out of six invoices is electronic;
- 90 percent of daily AR tasks still rely on the gathering and routing of paper;
- 15 percent of all paper documents are lost and 30 percent of employee time is spent looking for the lost documents;
- A paper invoice costs approximately five dollars to process;
- Filing a paper document costs 25 to 35 cents per sheet;
- It costs about $25,000 to fill a four-drawer file cabinet; and
- Every 12 filing cabinets require one additional full-time employee to maintain.

Fidesic Corporation, in *The True Costs of Invoicing and Payment*, reports, "When you look at the effort AR departments are making to manage their operations run more efficiently, it is surprising that they still accept the inadequacies of paper-based invoicing and payment. Invoicing and receiving payments using paper is so labor intensive.

In order to send 450 invoices a month, Fidesic estimates that it takes approximately 260 hours of labor each month, or the equivalent of 1.5 full-time employees.

By migrating to electronic invoicing, businesses can cut the labor required to send an invoice significantly. NACHA, in conducting its own analysis of the costs of manual processing, says the costs to create and deliver a single paper-based invoice is $2 to $5.

Esker weighs in with the following chart, which compares the total costs of preparation and delivery between manual, automated mail, and electronic systems.

	Manual	Automated Mail	Electronic
Prep	4 min.	10 sec.	10 sec.
Delivery	3-5 Days	1-2 Days	Instantly
Cost	$5.00	$1.00	$0.08

Source: Esker

Figure 1.Cost of Manual vs. Electronic Processing

Why E-Invoice?

Surveys have shown that two of the biggest reasons that companies do not move forward with AR automation are lack of knowledge and confusion about all the choices on the market. Organizations will more fully embrace AR technology once they gain a fuller understanding of the benefits that can be achieved. For example, a conversion to e-Invoicing results in:

1. **Lower costs, less handling.** E-invoicing has numerous advantages. Most important, an e-invoicing system moves accounts receivable from a paper-based system. By switching to e-invoices, companies can eliminate manual handling, facilitate faster payments, and track invoices more easily.
2. **Printing, handling, and postage can be virtually eliminated.** This dramatically improves efficiency and reduces costs. Esker, a provider of an invoice automation solution, says that document handling time can be reduced by up to 96 percent. In addition, the cost of sending bills can be slashed by 40 to 80 percent. Billing errors and returns are decreased by as much as 90 percent. Also, from an environmental standpoint, the reduction in paper and resources also helps a company to reduce its environmental footprint.
3. **Better visibility and compliance.** In addition to the paper-saving aspects of e-invoicing, a major advantage is the transparency the electronic processing offers. At any point in the invoicing process, the invoice can be called up and examined. In addition, for compliance purposes, the data is immediately available for auditing or for reporting purposes.
4. **Easier processing, fewer errors, and improved customer service.** The Aberdeen Group reports, "At a time when companies are struggling to control working capital, e-invoicing is one area that can provide quick relief to the AR department." Aberdeen points out that when you eliminate the manual processes associated with invoicing you can:
   - Eliminate duplicate invoice entry;
   - Effectively manage status updates and attachments to invoices;

- Proactively improve customer service;
- Accelerate cash collection and reduce DSO;
- Lift the burden of paper off of collections and customer service teams; and
- Prevent invoice errors

How Does Electronic Invoicing Save Time and Resources?

A Forrester study, commissioned by Sterling Commerce, looked at the costs of both manual and electronic invoice processing. The survey revealed that when an enterprise moves from a paper-based invoicing system to electronic processing, it can realize:

- A cost savings of 44 percent in the accounts receivable operation;
- An error reduction of 37 percent on invoices; and
- A 32 percent savings on storage costs.

Paper-based or manual process is time- and labor-intensive, and has high labor, production, and delivery costs. From 10 to 40 percent of all manual invoices are disputed. The Gartner Group reports that dispute settlement costs an average of $20 per invoice.

In a manual process, AR staff members spend a good part of their day doing non-value work, such as filing and stuffing envelopes, which results in numerous human touch points.

Along with time and labor costs, there's the cost of paper, envelopes, printer toner, mailroom equipment, equipment maintenance, and filing and retrieving archived documents. Paper processes depend on production equipment such as printers, folding

Figure 2. Mailroom Process for a Manual Billing

In addition, checking for errors is rarely 100 percent accurate. Technologies around e-invoicing can also help automate invoice data review and exception management.

What Platform Will Work Best?

Depending on your organization's needs, budget, and security comfort level, you may select either an in-house solution or a hosted solution.

Software as a Service (SaaS). Electronic invoicing is frequently implemented as Software as a Service (SaaS) solution, hosted by a technology solutions provider. With SaaS, there are minimal technology requirements. Often, the only requirement is a browser.

A SaaS model provides the ability to rapidly customize the application–or "configure" it—to conform to an organization's workflow and business rules. The implementation time with a SaaS system is usually very short and low-cost. Scalable solutions can be added to support growth. Since the software is leased, there is usually no up-front IT investment. There is also no maintenance. The supplier takes care of any upgrades that might be necessary.

The Safety Factor. Security and safety are always a major concern for organizations when considering software-as-a-service, however. Understanding this concern, providers offer firewall protection, a disaster recovery strategy is developed to ensure that customer data remains secure and protected, and include such safety features as:

- encrypted log-ins
- automatic password expirations
- restriction of user functionality
- automatic system time outs
- automatic start and end dates for temporary or seasonal employees

Software-as-a-service may not be right for everyone, however. Many solutions providers also offer their e-invoicing software as a self- hosted solution. This option requires the user company to have its own (or hosted) hardware, on-premise software, and in-house IT resources. Several providers offer both SaaS and in-house solutions that can achieve the same type of technology, upgrades, safety features, and customer support.

The Challenge of Customer Adoption of E-invoicing

One of the main challenges involved with making a successful transition to e-invoicing is the level of customer acceptance. With any automation initiative, you will have early adopters and laggards. The first tier of customers to accept e-invoicing are the early adopters. "It's the second and third tiers of customers that take more time to convince," says Ed Bachelder, director of research for Blueflame Consulting.

A mistake of the past had been the belief in an "all or nothing" approach. In other words, companies would launch an e-invoicing system and demand that all their customers go fully electronic from day one. As a result, AR departments and their customers would reach a kind of "e-invoicing deadlock." Either the e-invoicing software that the organization adopts is too rigid—and won't allow for flexibility in forms of invoice delivery—or customers will drag their feet and resist the new mode of delivery.

Before software-as-a service (SaaS) was available, there was less flexibility about the implementation and adoption of e-invoicing. Most solutions required installing an in-house program, requiring substantial investment in resources. When the system finally went live, there was a sense of urgency to immediately get all customers onboard in order to begin to achieve a return on investment.

Now, implementation can be achieved very quickly (with SaaS) with little or no downtime and minimal expense. Even if a customer does not opt for full electronic invoice delivery right away, savings can be achieved from day one.

"In fact, AR can reconcile its need for automated billing with customers' desire to receive paper invoices. And, as customers become ready to adopt electronic invoices, companies can easily satisfy changing preferences and tailor invoice delivery to the circumstances of each customer," says Greg Collins, Sales Manager, Americas Esker.

Esker explains that there are two methods of adoption, *proactive adoption* and *passive adoption*.

Proactive adoption. With a proactive adoption, customers are expected to fully embrace and accept e-invoicing from the very first day the solution is implemented. The philosophy is that a company cannot spend the time and resources to handhold customers while they adapt to the system. “This approach of flipping a switch and expecting all customers to go 100 electronic may work for huge companies that have a great deal of power and clout,” says Collins. But for others, the true cost of such an approach might outweigh the benefit.

A customer’s business processes may not allow for e-invoicing–or they may simply be resistant to change. “There are customers who simply don’t like change and they’ll dig their feet in. Other might accept the e-invoice if you force it upon them, but you’ll find those who won’t pay unless they get a paper invoice. Their processes require a hard copy and as a result they consistently pay late.” says Collins. “In the worst-case scenarios the customer will find you too difficult to work with and just walk away without paying at all.” In the end, the company is left with either lost customers or collection problems, which can become a very expensive proposition.

Passive adoption. A different–and more effective–approach is passive adoption. With this approach, customers are “on boarded” at the rate they are comfortable with. The company gives the customer the option to determine how they want to receive their invoices. “Companies will be surprised how many of their customers are ready for e-invoicing,” says Collins, “and with passive adoption a company is approaching their customers who aren’t ready yet with an option. Instead of a customer hearing an ultimatum of how they must do business with their vendor, they hear options. It becomes an opportunity to make e-invoicing a customer facing activity to build further brand value and solidify the relationship.”

More often than not, the passive adoption allows for a better fit with the customer's business processes. Customers are less likely to react negatively. And working with a customer is usually better for the relationship.

Savings can be achieved from the very first day. That's because the automated system dramatically decreases the time and resources needed to get an invoice out of the door—even a paper invoice. Working with the software provider, the company can gradually ease customers into electronic invoicing and away from dependence on paper. The company also has time to define strategies for e-invoice adoption by customers—incentives, penalties, discounts on early payments, etc. Eventually, the customer begins to experience how easy and efficient e-invoicing is.

The time it takes for e-invoicing to be fully embraced may be slower with the passive approach. However, a company can still see some impressive gains. In fact, the rate is typically 10 percent to 25 percent the first year. While in contrast to a higher percentage a huge company with a great deal of leverage may achieve with the proactive approach this might seem low, but the trade-off is customer satisfaction and retention. Customers are more receptive to the passive approach and likely to buy into and stay with the company for the long haul.

The fact is that different customers want to receive their invoices in different ways. Some prefer mail, others prefer e-mail. Still others want fax or Web.
Instead of dropping out of the program or rebelling against it, electronic usage ramps up steadily. And with each stage of the process, the company stands to gain huge benefits and return on investment.

Customers Who Opt In, Stay In

Exhibit 3 illustrates a passive adoption process, in which it takes about two to three years to achieve an 80 percent level of usage of e-invoicing. Still, as mentioned, there are considerable incremental savings on the path to 100 percent adoption. In addition, collection problems decrease—and customer loyalty increases.

Another critical factor is that the passive adoption method supports growth without adding additional headcount. Since it takes less time and effort to send invoices—and invoices are easier to find—staff can be assigned higher-level tasks such as reporting and benchmarking that actually contribute to achieving organizational goals.

Since customer acceptance has traditionally been the roadblock to e-invoicing implementation, it makes sense—economically and strategically—to "onboard" your customers, rather than force them to comply with a system that they may not be ready for.

"Companies could increase their e-invoicing participation dramatically by changing their new customer enrollment to a passive approach," says Collins. "In any case, the wisest route to widespread adoption is to find a solution that allows you to implement different processes concurrently, depending on level of sophistication of each customer."

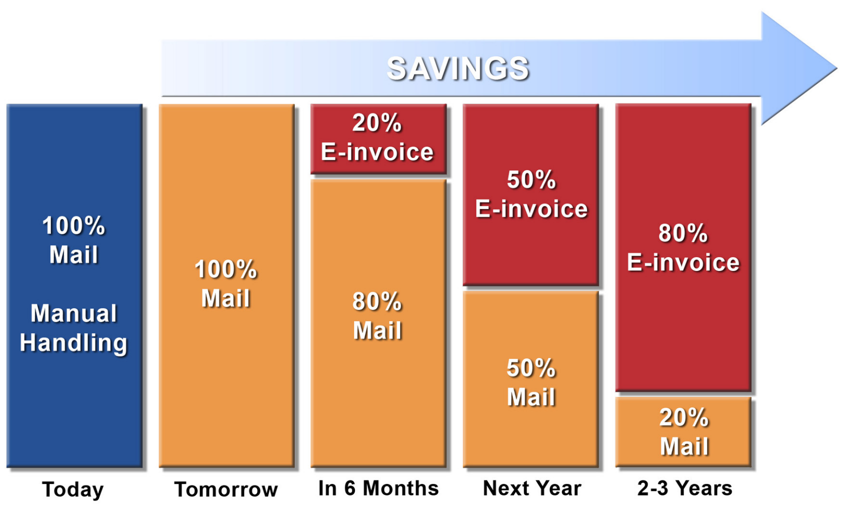

Figure 3. Increase in Savings with Passive Adoption

How Can AR Automation Ease the Transition from Paper?

Many electronic invoicing automation platforms today can produce both paper and electronic formats to match customer preferences.

In addition, such e-invoicing programs can accommodate special bundling requests, combining together invoice, customer purchase order and proof of delivery documents. The invoices are submitted by the user from the organization's ERP applications to the software application (either SaaS or in-house). The system sends the invoice bundle according to the customer's delivery preference via:

- E-Invoice
- Fax
- Mail on demand

The delivery status is directly fed back into the ERP and becomes available to users through the archives. In other words, an invoice can be called up at any stage in the invoicing process.

Mail on demand. An automated invoicing application is a huge advantage, even for those customers that continue to request a mailed hardcopy invoice. For example, with a flexible e-invoicing automation application, you have the capacity to send business documents by mail the same day you create them. Thus, AR gains the benefit of "real-time mailing."

This saves time and money, and provides much more flexibility than a mailroom or outside mail house. Since the process is accelerated, there are no delays in preparing the mailing. Since the customer receives the bill sooner, you will most likely receive the payment quicker. In addition, there are no volume constraints with mail on demand. AR can send one invoice or several thousand business documents at once. In addition, the document will be automatically electronically archived in the system, even though the customer is receiving a hard copy.

The Problems of Remaining Paper-based

In an economic climate in which AR departments are being asked to do more with less, companies are being driven to find savings. It no longer makes sense to have valuable employees doing non-value added tasks like printing, stuffing, and collating. Postage costs are increasing. And even if the company's existing mailing system is somewhat automated, maintaining the hardware and equipment alone is an economic burden.

With manual processes, quality suffers. Whenever you have a labor-intensive process, errors occur. There is inevitably a longer delivery period, and consequently, a longer cash collection cycle.

Conventional billing processes typically include processing and sending invoices at the end of a set time period. Whether weekly or monthly, invoices that are ready to go sit and wait until the set time arrives.

"The faster a company gets invoices into the hands of customers, the sooner it can receive payment," reports Collins. "Real-time sending of invoices as they are prepared lets customers start their internal payment process right away, which can significantly reduce Days Sales Outstanding (DSO)."

Consider this scenario: A company earning $100 million a year uses conventional invoicing processes. With 250 business days in a year–and providing the customers were all paying on time–the company would take in $400,000 a day. Of course, the reality is that customers often do not pay on time. But even with a conservative assumption of half the customers paying late, the company would take in $200,000 a day.

A 7-day reduction of average DSO through electronic AR invoicing would amount to $1.4 million in early payments. With an average return on investment at 5 percent, the early cash collection could earn the company an additional $70,000 in the bank.

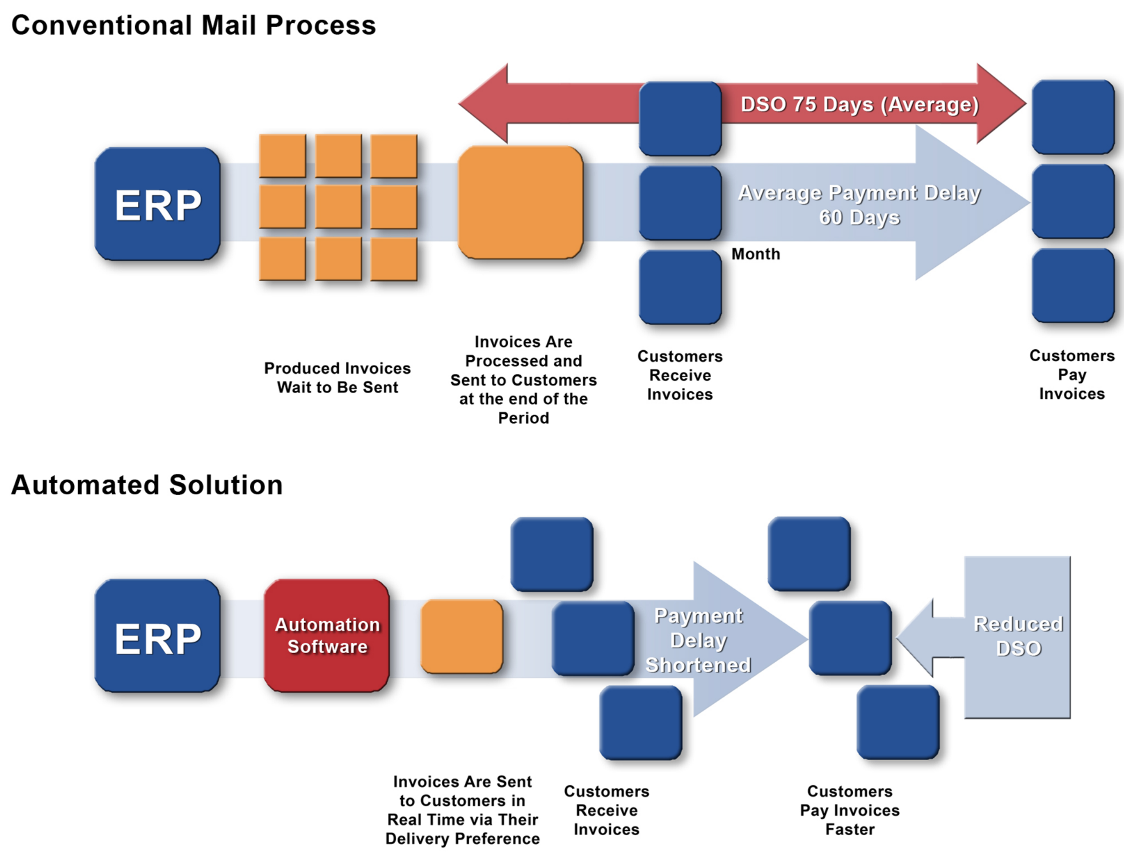

Figure 4. Automation Reduces Days Sales Outstanding (DSO)

Continuous Cash Collection. Cash can be collected continuously with real-time automated delivery of invoices, as opposed to conventional invoicing methods of cash collection.

Archiving. With paper archives, a staffer's search and retrieval time becomes protracted. For auditing purposes, it is far more difficult for an AR professional to find a document in a paper file cabinet than to call it up on screen. Paper invoices are less visible, harder to monitor, and more difficult to access and gather information for reporting purposes.

Once organizations take the e-invoicing plunge, however, the advantages are great and the benefits immediate. For one thing, an electronic audit trail is available, which speeds up dispute resolution. This transparency also makes auditing less cumbersome, and it becomes easier to stay compliant with the Sarbanes Oxley Act (SOX) and to determine value added tax (VAT) liability.

Can E-invoicing Help AR Stay Compliant?

Accounts receivable cannot afford any weakness in its financial controls. If the company is not in compliance with such provisions as the Sarbanes-Oxley Act, it can lead to penalties and great risk in other areas, as well.

E-invoicing and other automation initiatives provide visibility and accountability through the real-time tracking of invoices, along with an easy-to-follow audit trail and reporting capability.

What Kind of Results Can Be Expected?

Positive results have been reported by companies after introducing e-invoicing into their order-to-cash cycles. Notable are reports that once e-invoicing was implemented, AR staffs were able to devote their time to more important tasks. “The time once spent stuffing envelopes is now spent interacting with customers and suppliers,” reported one AR manager. “People are available to do more critical work rather than mundane administrative tasks.”

In addition, other companies reported that they were able to:

- Eliminate paper invoicing completely;
- Reduce delivery costs by 50 percent;
- Save 50 hours of labor per week;
- Reduce DSO by 5 days;
- Achieve a 50 percent e-delivery level immediately after implementation
- Get paid quicker (customers started paying 3 to 4 days faster); and
- Gain total visibility into the invoicing process.

What Does an AR Department Need to Do to Get Started?

Any software provider will tell you that before you select an electronic invoicing solution, you should conduct internal due diligence. “The last thing an AR department needs is a haphazard automation. This could cause more problems than solutions,” says Clyde Logue of RCM Electronic Invoicing Solutions. With that in mind, Logue recommends that organizations give careful consideration to questions such as:

- What are the short- and long-term automation goals for this organization?
- How ready are we to adopt e-invoicing?
- What are the costs?
- What is the timeline?
- What is the level of complexity to this solution?
- What are the needs of our internal and external customers?
- What type of implementation fits the organization–build versus buy, and if buy, licensed versus hosted?

By asking and answering these types of questions, organizations should be able to assess the scope of an AR automation project and be in a position to create a shortlist of the solutions capable of addressing the specific needs of the AR department and the organization it serves.

Six Steps to Consider in Your Planning

1. **Think in terms of the future.** As you are exploring your wants and needs, keep your future needs in mind, too. You'll want to select a solution that is scalable and leaves room for growth and flexibility.
2. **Choose a vendor.** Identify and make a list of your department's core pain points, needs, and goals within each function of the organization related to invoice processing. Finalize a list of primary and secondary criteria so that you can compare the benefits that each vendor is offering. Don't start shopping until your list is finalized, or you will risk becoming confused as to what each vendor is offering. On the basis of your list, select the vendor that can most closely address your challenges.
3. **Identify your stakeholders.** Typically, the stakeholders are finance, AR, information technology (IT), and possibly sales. Senior managers should also be involved, because they will be the ones who sign off on the project, budget, and contract. In addition, you'll need their endorsement and support throughout the planning. Since they set the policy and the tone throughout the company, there will be less resistance from employees when the automation project is implemented.
4. **Don't forget the ultimate stakeholders—your customers.** The ultimate measure of success is the level of enrollment you achieve with your customers. Come up with a comprehensive plan to bring them aboard. Find out how many and which customers are already receiving electronic invoices from other suppliers, and what formats and systems they are using.
5. **Develop your roll-out strategy.** You will need a realistic plan for rolling out your e-invoicing plan. It begins with the implementation of the new system internally. When that is accomplished, then shift focus to customer adoption. Your high-volume customers will be most likely to adopt first. It will be your second and third tier customers that will be the toughest. Don't forget your internal customers, too. You will need to be diligent about training your staff and familiarizing your in-house partners as well.
6. **Prepare your training materials well in advance.** A new system involves change, and change is difficult. Arm yourself with a solid plan on how you will train your staff and your internal and external customers. A great deal of patience and creativity may

be required. Devise different modalities to teach the same tasks, to make sure your message is getting through.

Conclusion

Hopefully, this report will help you to better understand the advantages, challenges, and potential stumbling blocks you may encounter on your path to implementing e-invoicing.

You will undoubtedly be alternately discouraged and encouraged during the process. But it will be a worthwhile journey. By automating and introducing e-invoicing, your company will achieve:

- Better ways for customers to receive invoices, resulting in higher customer satisfaction.
- Real-time delivery of invoices based on customer preferences for method and format;
- Auto-bundling of invoices with documents like the original customer PO and proof of delivery;
- Automatic invoice routing and Web-based approval workflow for billing process control; and

Replacing a paper-based process with an electronic solution will enable you to operate more effectively, improve your profit margins, benefit from better communication with your customers, and reduce your days outstanding.

Good luck with your automation project!

About The Accounts Receivable Network

The Accounts Receivable Network (TARN), the leading resource for helping accounting and finance executives meet their commitments to accounts receivable business process performance, is committed to creating high-value information, training and events for professionals in accounts receivable, credit and collections. As a part of Financial Operations Networks, The Accounts Receivable Network draws on deep, comprehensive order-to-cash knowledge bases that include hundreds of proven time-saving tools and templates, incisive content guaranteed to help AR professionals work smarter, cutting-edge webinars and subject matter experts on call to answer questions. TARN's mission is to deliver everything needed to thrive in AR today.

The Accounts Receivable Network is completely independent and is not owned by or affiliated with any industry supplier. For further information, please contact The Accounts Receivable Network, 2100 RiverEdge Parkway, Suite 1010, Atlanta, GA 30328, 770-984-1184, www.TheAccountsReceivableNetwork.com.

About Esker

Esker is a recognized leader in helping organizations eliminate manual processes, gain process visibility and control, and automate the flow of documents into, within and out of the organization. With patented document delivery automation software and hosted document delivery services, Esker offers a total solution to automate every phase and every type of business information exchange. Customers achieve significant and immediate operational efficiencies, cost savings and measurable ROI in as little as three to six months. Founded in 1985, Esker operates globally with more than 80,000 customers and millions of licensed users worldwide. Esker has global headquarters in Lyon, France and U.S. headquarters in Madison, Wisconsin.