

# DDM

## Dynamic Discount Management

### Increasing Discount Capture through AP Automation

#### Featuring Insights on.....

Building a Case for Automation

Drive to Enhance Discount Capture

Dynamic Payables Discounting

Invoice Automation & Discount Management

Eight Building Blocks to IADM

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## Executive Summary

Given the current economic climate, it not surprising that organizations everywhere are seeking ways to improve the bottomline. This has resulted in the limelight being shone on the accounts payable (AP) department and its ability to capture discounts from suppliers in exchange for paying invoices early. With interest rates reaching virtually zero, early payment discounts have become extremely attractive for buyer organizations. Even traditional payment terms like 2%10 net30 can translate to a 36 percent APR if the invoice can be approved and paid within the 10 day window.

However, our recent research reveals that though the interest in increased discount capture has been increasing, the ability to optimize the invoice processing cycle to actually take the discounts available has not changed significantly. According to the results of PayStream's "Electronic Invoicing Adoption Survey 2010":

- More than three-quarters (80 percent) of companies give a lot of importance to capturing early payment discounts.
- Just over a quarter (27 percent) of organizations are able to capture all discounts available.

On the other hand, senior management's interest in optimizing working capital requirements is pushing finance departments to take a hard look at technologies that enable them to compress the invoice receipt-to-pay cycles and increase discount capture. According to our research, the diligent use of electronic invoicing, automated matching and workflow solutions, enable organizations to compress this cycle from an average of 23 days to five days, allowing them to take a higher portion of discounts available.

Further, the dynamic discounting capabilities offered by these solutions now put buyers in the appealing position of being able to extend the discount period beyond the traditional 10 day window. PayStream Advisors defines Dynamic Discounting as the process which allows buyers and suppliers of commercial goods and services to dynamically change the payment terms – such as net 30 – to accelerated payment based on a sliding discount scale.

Dynamic payables discounting solutions provide suppliers with the flexibility to discount their approved receivables at any point up to the invoice due date. Solution providers and banks that participate in this market facilitate these early payment transactions through simple Web interface that provides visibility to all parties, including the ability to change rates and terms in real-time.

Given this growing interest around dynamic discount management solutions, PayStream Advisors has developed the Technology Insight Series report titled **"Dynamic Discount Management: Increasing Discount Capture through AP Automation."** The report is a valuable resource for organizations that are actively exploring dynamic discounting solutions, but need help identifying appropriate vendors and solutions.

This report is one of many resources available in our research library, including:

- Invoice Automation: Automating AP through Imaging and Workflow
- Electronic Invoice Management: Getting Rid of Paper from the Source
- Electronic Invoicing: Best Practices and Operational Metrics to Streamline AP
- Invoice Automation for Small & Medium Enterprises (SME)

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# Building a Case for Automation

## Inefficiencies in the Financial Supply Chain

Even though automation has already delivered tangible results in the physical supply chain, automation has barely trickled into organizations' financial operations. This is especially true as it pertains to the receipt of invoices, settlement of payables and cash flow visibility. Given the historical lack of innovation in this arena, buyers and suppliers today are experiencing a number of problems that prevent true optimization of the financial supply chain. Unlike improvements enjoyed by the automation of physical supply chain transactions, today's payable and collection processes are still primarily manual, non-integrated and inefficient resulting in numerous challenges for trading partners.

### **PAIN POINTS IN THE FINANCIAL SUPPLY CHAIN**

#### **BUYER PAIN**

Inability to extend payment terms and increase Days Payables Outstanding (DPO).

Supplier inquiries, exceptions and disputes tie up valuable AP resources.

Costs of printing and mailing paper checks and stop payments and as well as re-issue costs with lost checks and fraud.

Suppliers' high cost of capital translates to incremental cost of goods and services for buyers.

#### **SUPPLIER PAIN**

Lack of visibility and uncertainty around payments hinders cash flow forecasting efforts.

Need to maintain excess cash as "hedge" against uncertainty increases working capital tied-up in the cash receipt cycle.

Limited access to capital leads to reliance on expensive financing options like factoring and asset-based lending.

- **Manual and Inefficient Processes:** The purchase-to-pay process has long suffered from the inefficiencies inherent to manual, paper-based processes including the lack of visibility and control over financial transactions, unavailability of timely information and high processing costs. In addition to the high cost of making payments via check to suppliers, buyers also face the issue of lost checks and missing or insufficient remittance detail. All these factors lead to frequent vendor inquiries, exceptions and disputes.
- **Conflicting Interests:** The current payment process places an unnecessary burden on one of the parties – the supplier – limiting the possibility of expanding on a potentially mutually rewarding relationship. While buyers are constantly looking to extend payment terms to meet their objectives of improved working capital, suppliers desire improved liquidity. This conflict of interest could have negative ramifications for buyers who have to fund payment terms at their cost of capital.
- **Lack of Cash Flow Visibility:** Lack of visibility and uncertainty around cash flow is a source of major concern to suppliers. In the current environment, there still exists a great deal of uncertainty around the timing and amount of approved receivables. As a result, suppliers are compelled to maintain excess cash as a "hedge" against such uncertainties, which leads to an unnecessary increase in working capital that is tied up in the order-to-cash cycle. Many suppliers frequently carry a higher amount of debt on their balance sheets to fund this uncertainty. The wasted operating capital affects the entire financial supply chain, increasing the costs of working capital and reducing profitability for all the supply chain participants.
- **High Cost of Supplier Financing:** The above factors – including pressure from buyers to extend payables terms and uncertainty around the payment process – pose another challenge for suppliers. Suppliers, who have limited access to capital, often have to rely on high-cost financing methods like factoring or asset-based lending to fund their working capital and improve their cash positions. The cost of financing can be significant to suppliers, which in many cases is passed on to the buyers in the form of higher cost of goods and services.

## Deriving Value from AP Automation

Emerging financial solutions that enable trading partners – buyers, suppliers and banks – to seamlessly exchange transaction-related information and funds are changing the payables landscape. Invoice automation and discount management (IADM), a relatively new concept, is gaining broad acceptance within accounts payable and accounts receivable departments as a means of facilitating real-time, collaboration between buyers, suppliers and banks.

Research by PayStream Advisors shows that a paradigm shift is clearly underway as organizations strive to address inefficiencies in financial supply chain processes. Increasingly, savvy organizations are exploring innovative means to leverage automation not only to contain costs from a tactical perspective, but also strategically to enhance control, improve visibility and manage spend, and to compress process cycle times to reduce working capital requirements.

We believe that accounts payable automation is emerging as one of the key components of this financial supply chain strategy.

At an operational level, automating existing accounts payable processes can:

- Reduce processing costs for both paper and electronic invoices;
- Increase full-time equivalent (FTE) efficiency;
- Reduce processing errors and promote faster discrepancy resolution;
- Minimize the payments risk of fraudulent and duplicate invoices; and
- Increase straight-through processing and achieve lowest cost routing to minimize bank charges.

On a more strategic level, AP Automation can unlock significant value from the financial supply chain by:

- Accelerating the approval of invoices to capture early payment discounts;
- Facilitating dynamic payment terms based on a sliding scale;
- Optimizing spend management for working capital gains; and
- Enabling suppliers to improve their own cash flow through improved visibility into invoice status.
- Strengthening vendor relationships.

This collaborative approach to financial supply chain management positions buyers to partner with innovative banks providing supply chain finance support, delivering the following key benefits:

- Enabling suppliers to reduce their Days Sales Outstanding (DSO) without the need for high-cost financing options such as factoring and asset-based lending and
- Allowing buyers to retain and potentially extend their Days Payables Outstanding (DPO).

## Drive to Enhance Discount Capture

One of the major drivers for AP automation has been senior management's emphasis on improving visibility to payment liabilities. This has come to bear along with a strong push toward increasing discount capture from suppliers for prompt payments, such as 2%10 net30 terms. However, the reality is far from this. According to PayStream research, at least 50 percent of organizations are unable to capture anywhere between 50 to 70 percent of discounts offered, because their AP departments are unable to approve and pay the invoices within the 10 day discount window.

The enemy of efficient AP processing and working capital visibility is paper. Payables departments relying on paper invoices and decentralized receipt of transaction-related documents suffer from lengthy approval and payment cycles, which can range from 15 to 40 days, or even more in some cases. According to statistics from PayStream Advisors, the average invoice cycle time is 23 days from receipt to approval, with best-in-class companies completing this cycle in 5 days.

Emerging Web-based technology solutions that address the existing inefficiencies are offering the following advanced functionality for (a) supplier on-boarding, (b) straight-through-processing, (c) discount management, and (d) self-service vendor management.

### ***Supplier Onboarding***

The greatest barrier hindering electronic invoicing initiatives is supplier adoption. Persuading suppliers to change their processes to align with buyer's needs is a costly and time-consuming process, and success depends largely on the buyers' ability to present a compelling value proposition to suppliers. Many buyers have failed to effectively communicate the value of AP automation initiatives to their suppliers, and as a result, struggled to generate the results they expected from implementing e-invoicing solutions.

For the supplier, AP automation should represent an opportunity to improve the efficiency of their accounts receivable (AR) processes. Therefore, buyer organizations need to be more proactive in providing supplier-driven visibility into the invoice approval and settlement process. Given this scenario, technology providers that deliver supplier onboarding services in conjunction with the solution itself are gaining strong traction in the market.

### ***Straight-Through Processing***

Straight-through processing or touch-less processing facilitates the automatic payment of "clean" invoices – those with no errors or ones that meet pre-defined criteria. This allows organizations to enhance discount capture as well as freeing up buyers and AP staff to spend more time on managing exceptions and accelerating dispute resolution with suppliers. This includes:

- Validation of invoices, at the time of submission, based on pre-configured business rules and tolerance levels to correct any errors or exceptions before the invoice even reaches AP and the clock starts ticking.
- Automated three-way matching of POs, invoices and good receipts documents, so that invoices can immediately be scheduled for payment. Some organizations even allow a two-way matching success (PO and invoice) to trigger the payment instruction for a small set of trusted suppliers.

- Automatic approval of or fewer levels of approval for certain non-PO invoices, especially when it comes to small dollar invoices or invoices from suppliers with whom buyers have a long and strategic relationship.

**Working Capital Management**

The concepts of Dynamic Discounting and Supply Chain Finance have become hot topics within electronic invoicing circles. By providing an incentive to suppliers for early settlement, these working capital solutions serve the cash management needs of buyers and suppliers alike. While discounts have been traditionally driven by suppliers as an incentive for securing early payment, enhanced visibility into invoice status outlined above is turning the tables and enabling buyer organizations to proactively propose early settlement discounts to suppliers.

With third-party financing, buyers can extend their payment terms through the injection of third-party capital without adversely affecting supplier relations. Conversely, suppliers gain additional cash liquidity and stronger balance sheet positions. These solutions also mitigate uncertainty surrounding payment timing and amount, allowing for superior cash flow forecasting capabilities for suppliers.

**Vendor Self-Service**

Through the integration of self-service supplier portals, Invoice Automation and Discount Management solutions can truly drive collaboration between buyers and suppliers. These solutions accelerate the exchange of information between trading partners and provide improved visibility and control over financial transactions. Suppliers’ ability to upload, view and track invoices in real-time as they make their way through a buyer’s workflow process, strengthens the visibility and control they have over their AR processes. Suppliers receive notification immediately upon completion of the buyers’ payables approval process, allowing them to monitor and assess their receivables in real-time. And for the buyer, this translates into a reduction in resources required to resolve discrepancies and respond to inquiries. Both buyers and sellers receive payment data and remittance detail electronically facilitating reconciliation of payables and receivables.

**Table 1**  
**BENEFITS OF INVOICE AUTOMATION AND DISCOUNT MANAGEMENT**

| Electronic Settlement   | Payables Discounting   |
|---|--|
| Enhances prompt payment discount capture and reduces the incidence of late fees.                              | Provides a low-cost financing alternative to suppliers and an additional income stream to buyers.                                      |
| Lowers processing costs by removing the need for printing and mailing checks and the incidence of fraud.      | Enhanced visibility into the timing and amount of payments aids in superior cash flow forecasting capability for suppliers.            |
| Supplier notification and vendor self-service options reduce the number of supplier inquiries and exceptions. | Delivers better cash liquidity and stronger balance sheet positions for suppliers without relying on high cost financing alternatives. |
| Online search and retrieval tools aid in payment verification and collaborative dispute resolution.           | Buyers can extend their payment terms; Suppliers can accelerate their cash conversion cycles.  |
| Aids in compliance with Sarbanes-Oxley and other regulatory requirements.                                     |  |

## PayStream Advisors Survey Says....

PayStream Advisors conducted its “Electronic Invoicing Survey” of accounts payable and treasury professionals in early 2010. The online survey was completed by more than 275 companies spanning a variety of industries like manufacturing, distribution, financial services, utilities, telecommunications, financial institutions and insurance.

Based on survey results, PayStream Advisors has developed a benchmarking report titled “**Electronic Invoicing Adoption**,” designed to give corporate managers insights, tools and benchmarks to determine if any emerging automation solutions make sense for them, by looking at what drove the profiled companies to adoption.

Here are some key insights on discount management based on survey results.

### Discount Capture is a Priority for Most Companies

Capturing discounts offered by suppliers in exchange for early payments is considered to be important by almost half the companies (49 percent) that we surveyed, while another third of the companies (31 percent) stated that it was a huge priority.

In today’s economic climate where interest rates are extremely low, capturing even a traditional discount like 2%10net30 (which translates to a 36 percent APR) is a no-brainer. Given this scenario, it is not surprising that almost 80 percent of the organizations are interested in increasing their discount capture.

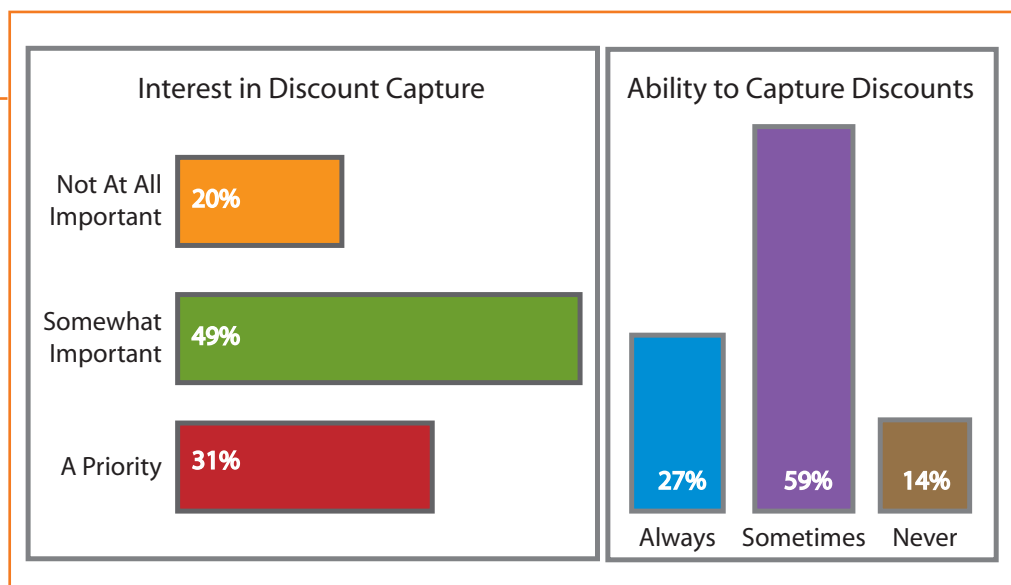
What was more interesting to note was that though capturing discounts is such a priority, there is a huge difference between an organization wanting to capture discounts and its ability to actually do so.

Almost 60 percent of the companies that participated in the survey stated that they are **only able to take some of the discounts** offered by their suppliers, while 14 percent of organizations are **never able to take early payment discounts**. We are impressed by the 27 percent that is actually **able to capture all discounts** offered to them.

**Figure 1**

**INTEREST IN DISCOUNT CAPTURE AND ABILITY TO MAKE THIS HAPPEN**

A number of companies are unable to capture discounts offered by suppliers

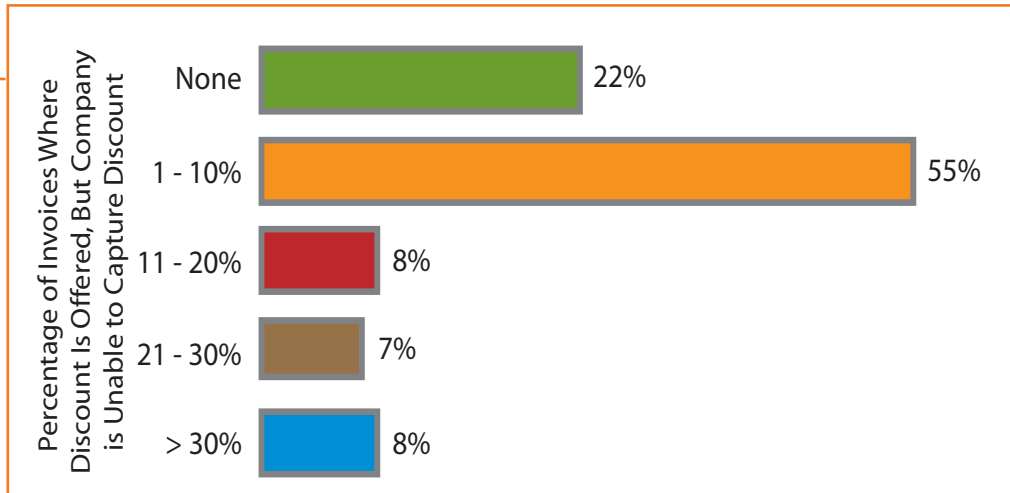


We then asked about the percentage of invoices where an early payment discount was offered, but the company was unable to take the discount due to slow approval or other reasons. Almost 15 percent of the companies stated that this occurred with more than 20 percent of their invoices.

**Figure 2**

**MISSING EARLY PAYMENT DISCOUNTS**

Eight percent said that they were missing discounts on more than 30 percent of invoices available for discounting



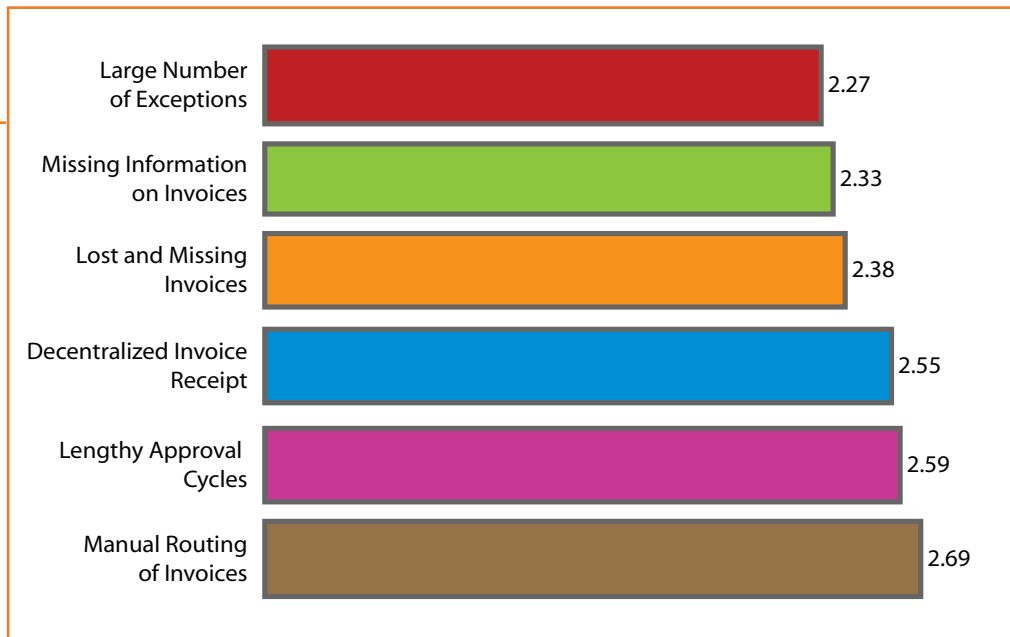
On a scale of 1 to 5, where 1 was the lowest and 5 the highest, we asked participants to rate the prevalence of problems that led to late payments and missed discounts. **Manual routing of invoices** emerged as the biggest headache with a score of 2.69 on our scale. This was followed by **lengthy approval cycles**, at a score of 2.59 and **decentralized invoice receipt**, which gained a score of 2.55.

These results show that there exists a tremendous potential to improve the invoice management process through electronic invoicing and automated workflow in order to effectively capture all discounts offered.

**Figure 3**

**REASONS FOR LATE PAYMENTS AND MISSED DISCOUNTS**

On a scale of 1 to 5, where 5 is the highest, what are the primary factors leading to late payments?



**DEFINING  
DYNAMIC  
PAYABLES  
DISCOUNTING  
SOLUTIONS**

DPD solutions are dynamic in more ways than one. They

Allow suppliers to control the timing of payments.

Calculate discount fees and payment amounts dynamically based on the number of days remaining until the due date.

Provide the ability to dynamically capture discounts as the working capital needs dictate, rather than having to negotiate discounts in advance.

Allow trading partners to tap into an alternative source of working capital with the use of third party creditors who pay early on behalf of the buyer.

## What is Dynamic Payables Discounting?

A financial practice in place for years in parts of Europe is gaining acceptance in the United States, largely because of the technological innovations of a few, relatively new electronic invoicing and payment solution providers and collaborative bankers.

PayStream's analysts have coined the term "dynamic payables discounting," or Dynamic Discounting for short to define this concept. Dynamic Discounting solutions provide suppliers with the option of accepting early payments against any or all of their approved receivables, at any point, up to the maturity date for a discount fee.

A portion of the finance charge or discount fee is then passed on to buyers. Our research reveals that this functionality has been rapidly gaining acceptance as it offers financing to suppliers at attractive rates while delivering an additional income stream to buyers – a win-win situation all around.

Many buyer companies are not nimble enough to take advantage of valuable discounts. Some seek to extend terms in order to preserve cash. Still others have investment alternatives so attractive that they outweigh the opportunity cost of missing a discount. Suppliers, on the other hand, too often find themselves financing sales by factoring their account receivables or through asset-based lending—both expensive sources of capital. Some suppliers, particularly smaller companies, don't enjoy either option and are frequently strapped for cash.

Dynamic Discounting serves the cash management needs of buyers and suppliers alike. The solution providers create the technological framework to facilitate this process. The transaction can be self-funded by the buyer or a bank can stand in as a short-term lender. Through Web-based buyer-supplier networks, buyers are able to project compressed settlement terms through supplier discounts. Suppliers are able to pick and choose among an array of payment options for each outstanding invoice. Banks pay the bill and collect from the buyer the full original price minus a percentage of the discount savings; an arrangement often referred to as "revenue sharing."

When third party financing is involved, buyers are able to reduce their working capital requirements, some by as much as 40 percent, and suppliers gain access to capital at a more competitive rate than they are likely to obtain through a local bank.

There are a number of good reasons why Dynamic Discounting is gaining acceptance as a best practice. Two related developments are the advent of the Internet and solution providers' willingness to harness its capabilities and apply them to cash management. Two other related developments are the attention being paid to what's now called the Financial Supply Chain and the willingness of banks to look at the disparity between the cash management needs of buyers and suppliers in a new, innovative light.

However you characterize the reason these changes have come about, the results are the same. Buyers are enjoying improved working capital requirements and suppliers have more control over their cash flow prospects. These results foster improved relations between buyers and suppliers—all made possible by visionary technologists and treasurers who are interested in tapping new sources of income.

## IADM Universe

PayStream Advisors defines Invoice Automation and Discount Management (IADM) solutions as those offering some or all the following functional components:

### **Supplier Enablement**

- **Vendor segmentation analysis** – classifying suppliers based on a number of parameters including transaction volume and value, strategic nature of relationship and their propensity to adopt IT initiatives.
- **Activation campaigns** – solution providers adds value to the equation by leveraging proven best practices to develop various activation campaigns – email, phone and direct mail – for different supplier groups.
- **Supplier enrollment** – suppliers can create profiles on the Web portal and provide their corporate and banking information. Alternatively, buyers can manually enter supplier information or import the same from their ERP or AP systems.

### **Electronic Invoicing**

- **Invoice submission** – facilitate the exchange of invoices between buyers and suppliers by supporting several methods of accomplishing this including PO flips, blank e-forms, standard templates and direct integration with suppliers' ERP systems.
- **Invoice validation** – routinely checking invoices for duplicity and mathematical integrity. An additional layer of validation is provided by checking invoices against a set of buyer-defined criteria and notifying suppliers to correct any errors before the invoice is accepted and routed.

**Figure 4**

**DYNAMIC  
DISCOUNT  
MANAGEMENT  
UNIVERSE**

Functionality  
offered as part of  
DDM solutions



- **Invoice receipt** – AP departments have the option to view the invoices within the portal and approve them using the workflow functionality offered by the invoicing solution or the invoices can be transferred to the accounting system for processing.

#### **Approval Workflow**

- **Invoice Matching** – matching invoices with purchases, goods receipt documents and/or contracts based on criteria configured in the system. Routing an match exceptions for review and resolution.
- **Workflow configuration** – ability to configure and change business rules that determine how invoices will be routed to appropriate users for review and approval.
- **Alerts & Notifications** – notifying approvers of invoices pending their review and escalating invoices to managers if no action is taken within a specified period of time.

#### **Dynamic Discounting**

- **Discount configuration** – flexibility to configure and change discount schemes at various levels, globally for all suppliers, for specific supplier tiers and even at the individual supplier level.
- **Discount control** – ability for buyers to specify which invoices will be made available for discounting based on working capital needs and the dates on which these invoices can be discounted.
- **Discount capture** – suppliers can log into the portal and view invoices that can be discounted and the associated fees. Once suppliers discount specific invoices, they will be paid immediately.

#### **Payment & Remittance**

- **Payment processing** – the steps that buyers take to initiate, post, and execute payment, including preparation, processing, and submission of the payment file to financial institution.
- **ERP integration** – this stage also includes integration with and posting of the payments to buyers' ERP and accounting systems.
- **Remittance management** – sending the remittance information to suppliers via the portal in a format of their choice that they can easily transfer the remittance advices into their receivables systems.

#### **Reporting & Analysis**

- **Standard reports** – suite of standard reports that come bundled with discounting solutions. Authorized users can perform simple and advanced searches to generate reports that provide visibility across transactions to buyers and suppliers.
- **Custom reports** – ability to generate ad hoc reports and save the queries as templates for further reuse.
- **Business intelligence** – wealth of information gleaned from the procure-to-pay process, can not only be used to comply with regulatory requirements but also to provide valuable business intelligence for strategic spend analysis.

## Eight Building Blocks of IADM

AP Automation - including Invoice automation and discount management (IADM) - initiatives need a framework to ensure that programs are approached on a strategic basis which bridges the supply chain, accounts payable and finance functions. PayStream's analysts have introduced such a framework to help enterprises implement "integrated" IADM and maximize its benefits. To achieve the long-term value of IADM, organizations need to adopt a strategy involving both procurement and finance and therefore initiatives should be approached at an enterprise level.

Our most recent research shows that many enterprises are still implementing electronic invoicing or stand alone discount management or supply chain finance programs, not truly integrated projects. So far, only a limited number of enterprises have stepped up to this challenge and are implementing what PayStream Advisors calls "integrated" IADM optimization. However, this number is steadily rising, as corporate enterprises begin to achieve benefits in their first attempts at IADM and realize what really needs to be done.

Based on in-house research, PayStream estimates that:

- Nearly 30 percent of surveyed enterprises have plans that would fit the integrated IADM description.
- Approximately 50 percent of those are planning a Level I approach (not integrated).
- Less than 20 percent are planning an integrated approach which brings

**Figure 5**  
EIGHT BUILDING BLOCKS OF INVOICE AUTOMATION AND DISCOUNT MANAGEMENT

A strategic framework to bridge supply chain, accounts payable and finance functions.



together buyer/supplier collaboration with electronic invoicing.

- More than 15 percent are considering global initiatives to inject third party financing into their supply chains.

Integrating invoice automation and advanced finance tools such as dynamic discount management or supply chain finance is not easy. It requires a multi-disciplinary vision and leadership to drive a “focus on unleashing working capital from the trade invoices and receivables; otherwise it will remain fragmented. It involves difficult changes to processes, and external organization that can make implementation difficult. Further, organizational and cultural barriers that exist between supply chain, procurement and finance managers make clear thinking on IADM difficult.

On the other hand, though the technology support seems easy, that is not always the case. Technology staff must grapple with the challenges of getting invoices approved faster, multi-channel alignment, and systems integration. Even if the CFO accepts the need for enterprise-level IADM, the quarterly demands of procurement and working capital targets, especially in delicate economic conditions, make IADM one of the most important challenge facing the finance organization, but not the most urgent for the CFO. This typically results in a focus on tactical “quick wins” until conditions are better.

The main reason enterprises are not implementing integrated IADM is an inability to see the big picture and understand what is involved. Just as a map helps you understand the context of your journey (the roads you need to navigate and alternative routes), so the PayStream IADM framework helps enterprises make decisions about the best route and objectives for their situation.

Following an analysis of several larger corporate enterprises, PayStream Advisors has created a IADM framework, or map, called “The Eight Building Blocks of Invoice Automation and Discount Management” (See Table 4) to help enterprises see the big picture, make their business cases and plan their implementation.

**TABLE 2: EIGHT BUILDING BLOCKS OF INVOICE AUTOMATION AND DISCOUNT MANAGEMENT**

**1. Purchase-to-Pay Vision**

- a. Leadership and senior management buy-in
- b. Cross-functional alignment and support
- c. Clear understanding of the value proposition

**2. Purchase-to-Pay Strategy**

- a. Clear and concise objectives and goals
- b. Multi-year automation roadmap
- c. Documented metrics to measure progress

**3. Supplier Interaction**

- a. Defining buyer-supplier collaboration goals
- b. Vendor segmentation and adoption planning
- c. Supplier communication and recruitment strategy
- d. Payment and discount terms configuration
- e. Incentives/penalties to drive supplier behavior

**4. Culture and Change Management**

- a. Inter-departmental collaboration and shared risk/goals

- b. IT resource allocation and training
- c. Incentive compensation based on goals achieved
- d. Cash management flexibility

**5. Process Management**

- a. Enhanced invoice visibility and accurate accruals
- b. Cash conversion cycle and DPO goals
- c. Improving processing efficiencies and accelerating approval cycles

**6. Purchase-to-Pay Information**

- a. Identifying efficiency metrics that need to be improved
- b. Leveraging external benchmarking data
- c. Visibility across transactions and access to data dashboards

**7. Automation Technology**

- a. Front-end imaging and approval workflow solutions
- b. Electronic invoice submission and receipt applications
- c. Seamless integration with ERP and accounting systems

**8. Value-Added Services**

- a. Multiple delivery models including hosted and SaaS
- b. Supplier recruitment and on-boarding
- c. Availability of third party credit and financing

The above framework can be used for internal education and debate in developing the IADM vision and IADM strategies. It can then be the basis of an assessment of the enterprise's current and required capabilities, to help understand its current position and future strategy.

## Direct Insite

Direct Insite Corporation is a global provider of financial supply chain automation across procure-to-pay and order-to-cash business processes. The company's solutions and services automate the complex and manual paper-intensive processes surrounding invoice and payment management. Direct Insite's service offering for automating both accounts payable and accounts receivable operations, Invoices On-line (IOL), was originally introduced in 2000 and the company has continued to expand the reach of the solution constantly.

The Direct Insite Invoices On-Line (IOL) platform offers a comprehensive invoice management service that supports the management of purchase orders, invoices and electronic payments. The IOL solution is offered by Direct Insite either as a hosted solution or as a managed service, where the application is hosted behind the customer's firewall but is controlled and managed by Direct Insite. The platform supports over 100,000 users in 80+ countries, 35 currencies and 17 languages. The IOL service platform has been integrated with multiple ERP environments systems including SAP, Oracle, JD Edwards and many more legacy systems.

**Table 5**

**DIRECT INSITE  
COMPANY AND  
SOLUTION  
INFORMATION**

|                                  |   |
|----------------------------------|---|
| <b>Founded</b>                   | 1987  |
| <b>Headquarters</b>              | Sunrise, Florida  |
| <b>Other Locations</b>           | Bohemia, NY , Santa Clara, CA, Denver, CO   |
| <b>Employees</b>                 | 55  |
| <b>Revenues</b>                  | \$10 million  |
| <b>Customers</b>                 | 43 operating company or enterprise clients  |
| <b>End Users</b>                 | 100,000 users in 80+ countries  |
| <b>Annual Transaction Volume</b> | 30+ million transactions (invoices, purchase orders, payments, etc.)  |
| <b>Industry Segments</b>         | Manufacturing, Communications, High Tech, Oil & Gas, Energy, Medical, Media & Advertising, Finance and Shipping/Transportation                          |
| <b>Key Accounts</b>              | IBM, Hewlett Packard / EDS, General Motors, Siemens, Carlson, Grey Group, Areva T&D, INTTRA   |
| <b>Awards/ Recognitions</b>      | ISO 9000 Certification, PCI Data Security Standard (PCI DSS) Certification, Top 100, Deloitte & Touche List of 500 Fastest Growing Technology Companies |
| <b>Partners/Resellers</b>        | First Data Corp., Hewlett Packard, IBM, INTTRA, Scan One  |

### Solution Overview

Invoices On-Line (IOL) delivers comprehensive functionality on both the buyer and supplier sides. Buyers can issue and manage purchase orders, review and approval invoices and create schedules and pay invoices online via flexible payment methods. Suppliers, on the other hand, can issue invoices and credit memos and respond to customer inquiries with attachments. Strong audit controls and reporting for all activity in the solution ensures total visibility to transaction status in real-time.

### ***Supplier Recruitment***

The IOL solution is augmented by a shared supplier network, which currently has over 100,000 suppliers, allowing buyers and their suppliers to trade information and funds seamlessly. However, the network can be made virtually standalone, if the buyer requires that its specific set of suppliers should be kept isolated. In order to accelerate the transition from paper to electronic invoices, Direct Insite takes an active interest in increasing supplier adoption and works closely with its clients in this regard. A Supplier On-boarding Team is responsible for creating targeted campaigns and contacting suppliers to get them enrolled in the IOL Trading Community.

### ***Electronic Invoicing***

IOL provide a variety of options for invoice submission. Suppliers can automate invoice preparation functions by flipping a purchase order into an invoice, applying line item adjustments and consolidating invoices. A line-item editing form allows suppliers to add additional line items to PO-based invoices or enter non-PO invoices. The solution also supports spreadsheet or image upload, direct file integration (EDI, XML) and client-specific flat files. Further, the company has partnered with scanning providers to support suppliers that continue to send paper invoices. Invoices Online has a robust 'rules engine' which performs automated document validation at the time of submission, ensuring that only clean data enters the AP process. Suppliers are notified of invoice errors at the point of submission via online 'web portal messages' or email notifications.

### ***Approval Workflow***

IOL delivers integrated workflow functionality that allows invoices to flow through a preparation, review, and approval life cycle by various users. Users can be set up as invoice preparers, reviewers, approvers, and payers with varying authority levels. IOL tracks the status of all documents within the system and real-time visibility to users with the proper authority levels. The solution also delivers collaboration between buyers and suppliers to efficiently resolve exceptions and discrepancies. Both parties can initiate document level and/or line item level inquiries and disputes, specify reason codes for their actions, type in descriptive text, and attach any supporting documents for justification. The system then logs the dispute and transmits it to the appropriate users for review and resolution.

### ***Dynamic Discounting***

Direct Insite's solution supports dynamic discounting capabilities, whereby buyers and suppliers can collaborate to determine a mutually beneficial early settlement discount. Buyers have the ability to configure discount rates and submit proposals to suppliers against specific invoices. Suppliers can view the invoices that are available for discounting, compare the discount rate against alternative sources of capital and decide whether to accept the proposal or submit a counter proposal. This process continues until the invoice is either paid early or at net terms. Also aiding CFOs in the process is an early payment discount report, which shows all the invoices where discounts were offered and accepted.

### ***Electronic Payments***

Direct Insite supports a comprehensive electronic payments module that allows buyer organizations to make payments via ACH, credit card, debit card and purchasing cards. Payment profiles and methods are maintained within the IOL portal by the buyers, who can also configure and maintain a recurring payment schedule using specific payment methods. Suppliers have the flexibility of configuring which payment methods are 'allowed' for each of their remit-to merchant accounts. We really liked the solution's Quick Pay feature, which allows buyers to flip a purchase order into

a payment to a supplier, without the need even for an invoice. Payments can be initiated within the IOL portal, then the data is transmitted for settlement through the ACH and credit card networks, and ultimately, to the merchant acquiring bank accounts.

***Reporting and Analytics***

The IOL solution provides a number of standard and configurable reports, including user profile management, payment transaction status, inquiry/dispute tracking, spend management, and transmission control reports. Further, the solution supports the creation of custom self-service reports by specifying reporting criteria and data elements, and these custom queries can be saved by users for later use. Reports can also be downloaded in ten different formats for further analysis. On the supplier side, users have access to the status of purchases orders, invoices and payments in real-time.

***Pricing and Implementation***

The average implementation for Invoices On-Line takes between 30 and 60 days. The primary issues governing the length of the implementation schedule are the client's business rules for workflow implementation and the availability of interface information related to the client's current or legacy ERP systems. Direct Insite uses a transaction-based pricing structure, with a minimal professional services fee upfront and a declining fee per transaction with an increase in monthly transaction volumes. The company provides 24/7/365 support in addition to customer training before and after the installation, with support and training plans tailored to individual customer's needs.

## Direct Insite Case Study

### Siemens Global Shared Services

Siemens Global Shared Services (Siemens) provides centralized accounts payable processing for more than fifty distinct operating companies servicing over 100,000 suppliers. Siemens processed 1.2 million invoices in 2008 and will exceed 2.4 million per year by the end of 2010. Furthermore, Siemens previously responded to nearly 20,000 supplier inquiries per month requiring a sizeable call center.

#### The Challenge

Siemens needed an accounts payable solution across multiple and diverse legal entities with business units operating on different platforms. With the migration of new Siemens entities into the shared services organization during this period, the scale expanded tremendously. As a result, the magnitude of daily transactions required a more automated and systematic approach to invoice processing and inquiries.

#### The Solution

Siemens conducted an extensive vendor analysis and selected Direct Insite's Invoices On-Line Accounts Payable Portal. Direct Insite provides a globally hosted suite of Web-based accounts payable automation and procure-to-pay service modules, which are incrementally deployed in a phased strategy. The solution provides a self service portal for inquiries, and electronic invoice submission for a large percentage of transactions. Enhancing the workflow business rule capabilities would enable invoices to be electronically vouchered with little or no manual intervention.

#### The Benefits

Following a rapid deployment by Direct Insite, Siemens suppliers aggressively adopted the supplier portal. Within six months of Go-Live, Siemens achieved a 50 percent reduction in inquiries resulting in improved supplier relationships.

Suppliers gained self-service visibility into their invoice and payment remittance information 7x24x365 days per year. Suppliers are also able to download their invoice/payment data and submit electronic inquiries online. Direct Insite automatically transmits and updates Siemens' centralized CRM, Remedy.

Following the Phase 1 rollout, Siemens set a Phase 2 goal of achieving wide-spread supplier adoption of electronic invoice submission through Direct Insite's electronic invoicing service. Direct Insite's supplier on-boarding and enablement services promoted awareness and training to Siemens 100,000 suppliers resulting in the conversion of manual paper invoices to nearly 80 percent electronic invoice submission.

Suppliers invoicing Siemens' many operating companies can submit electronic invoices through 1) Web form entry, 2) flipping a purchase order into an electronic invoice or 3) uploading invoice data from within an Excel spreadsheet. Suppliers can also submit electronic invoices directly from their billing system through EDI 810 and XML industry standard formats. Direct Insite further provides 'rules-driven' invoice validation ensuring invoices are 100 percent compliant with purchase orders prior to posting to the ERP.

Prior to the Direct Insite implementation, it used to take up to seven days including

mail time to process all the paper invoices to workflow. Now the electronic invoices are in the shared services workflow system within 24 hours or less.

“Direct Insite’s eInvoice and AP Automation service is important for supplier invoice processing and self-service invoice/payment status lookup. With over 2 million invoices per year, we needed a solution provider who would work closely with our suppliers to adopt electronic invoicing and reduce paper invoice handling,” said David Hester, Vice President of Accounting and Finance for Siemens Shared Services, LLC.

## Evaluating the Vendors

Selecting the right eInvoicing vendor can be tricky. It is critical to look at what various technology vendors offer and how exactly each solution's functionality lines up with specific business needs. Below are some questions that can help organizations find the eInvoicing solution provider whose offerings best suit their needs.

### ***Company and Product Reputation***

In addition to learning how long a company has been in business, it is helpful to know whether eInvoicing is a core offering for the company and to understand the growth plans and future vision of the service provider.

#### ***WHAT TO ASK...***

- How long the company has been in business? Since when has it been offering eInvoicing solutions?
- What percentage of its business/revenue comes from these solutions?
- How is it funded; if it is a public company, look at the prospectus?
- How many customers it has and who they are?
- How does it plan to grow and if there are any mergers or acquisitions on the horizon?
- How it will manage growth and the resulting increased customer demand on its systems?

### ***Performance and Value***

The vendor must be able to deliver on its promises regarding systems, scalability, security, service, and support.

#### ***WHAT TO ASK...***

- What security measures are in place to protect the integrity of client data?
- Where will client data be stored and who has access to this?
- What training and ongoing support are provided as part of the solution?
- Does the vendor promise an ROI?

### ***Solution Delivery Model***

Since eInvoicing providers have different delivery models for their solution, it is important to look at exactly how the solution is delivered and how well it meets each company's needs.

#### ***WHAT TO ASK....***

- Does the vendor offer the solution as licensed software or a SaaS model or a combination of both?
- What are the different modules of functionality available?
- Does the vendor offer any configuration and customization of the solution, as needed?
- How does the solution integrate with existing ERP/accounting applications?

### ***Solution Functionality***

It is important to understand the specific capabilities that will be delivered as part of each module that will be implemented.

#### ***WHAT TO ASK...***

- Is a supplier network part of the solution? Is it a shared supplier network? How many suppliers are enrolled on the network for eInvoicing and for dynamic discounting?
- What value added services and best practices does the vendor provide for supplier recruitment and enrollment? What are the vendor strengths in onboarding international suppliers?
- What are the different forms of electronic invoicing supported? What are the different validation criteria that can be configured to check invoices at the time of submission?
- For suppliers that send paper invoices, does the solution provide outsourcing services for scanning and data extraction?
- How robust is the workflow functionality? Can it support the processing of both PO and non-PO based invoices?
- Does the solution deliver dynamic discounting capabilities? Does it support both recurring and one-off discounts?
- Is the solution flexible to support both a buyer-funded model and a third party-financing model?
- What working capital management functionality is available as part of the solution?
- What reporting and analysis capabilities come bundled with the solution? Does it offer any executive dashboards?

### ***Implementation and Pricing***

How long it will take for the solution to be implemented and the pricing model are critical factors in evaluating vendors.

#### ***WHAT TO ASK...***

- What are the typical steps in the implementation process? Can the implementation be completed in phases?
- How long is the average implementation? What are the main factors that define the length of the implementation process?
- What is the pricing model? What are the different price components a client would have to pay?

## About PayStream Advisors, Inc.

PayStream Advisors is a technology research and consulting firm that improves the way companies plan, evaluate, and select emerging technologies to achieve their business objectives. PayStream Advisors assists clients in sorting through the growing complexities of IT applications related to business process automation with the goal of making objective, analytical, and actionable recommendations. Wherever business process automation technology is an issue, PayStream Advisors is there to help. For more information, call (704) 523-7357 or visit us on the Web at [www.paystreamadvisors.com](http://www.paystreamadvisors.com).

### About the Analyst

As Research Director, Sush Koka manages PayStream Advisors' overall technology research effort. She writes research reports, leads client briefings, and participates in consulting engagements in the purchase-to-pay and order-to-cash functional areas. Her deep experience both as a market analyst and a consultant enables her to analyze trends in financial services automation, assess feasibility of products and drive research activities. Her areas of focus include invoice and payment management, travel and expense management and business process automation. She has extensively researched and written reports in the above areas and her work has also been published in trade magazines such as Supply & Demand Chain Executive and DOCUMENT magazine.

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