

# What if Your Automated Electronic Invoice Presentment and Payment (EIPP) Process Was Really Automated?

Something new is happening in accounts payable automation that will transform how you make payments and manage your money. It's all because of a change in the way you can now issue payments.

By:

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First Data

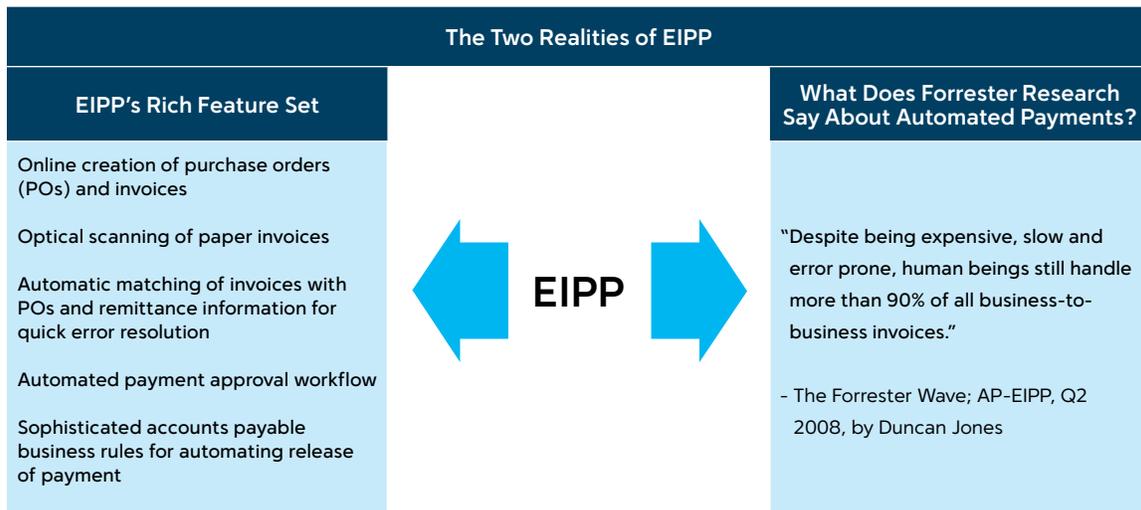
## Introduction: Are You Getting What You Really Need Out of Your EIPP?

For years we've been hearing about paperless business-to-business (B2B) transactions.

The promise of automated procurement and accounts payable is so enticing that many of the largest enterprises have invested heavily in expensive Electronic Data Interchange (EDI) systems that directly connect very large buyers and their banks to their very large suppliers and their banks.

For companies that are unable or unwilling to make costly capital investments in an enterprise EDI solution, Electronic Invoice Presentation and Payment (EIPP) software offers an alternative solution that can be cost-effective, highly functional and secure.

EIPP solutions have been available for many years now, and today there are over 150 EIPP vendors in the marketplace. Adoption of EIPP has been robust over the last several years, with the market growing at a 26 percent annual rate since 2004.<sup>1</sup> Some businesses are just dipping their toes into the EIPP pool, but many others have taken the EIPP plunge. So how is EIPP actually doing on streamlining accounts payable and the purchase-to-payment cycle? Well, let's see:



The uncomfortable reality in today's world of accounts payable: Excluding the largest enterprises, nearly 90 percent of all B2B payments are still made with paper checks stuffed into envelopes and sent through the mail.<sup>2</sup>

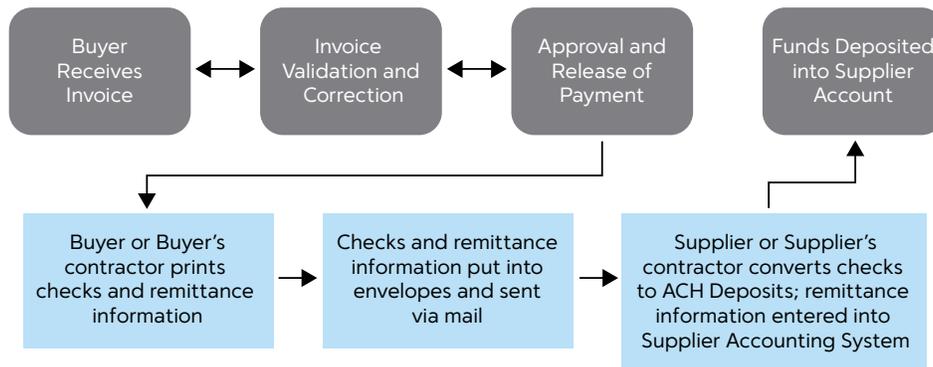
If you are using EIPP right now, perhaps you think of the actual payment part as a separate component of the payable process handled internally or by your check-writing service. Indeed, many industry analysts and EIPP vendors themselves do not consider the transfer of funds as part of EIPP. Consequently, what should be a fully automated process is still largely handled manually, and at great cost.

That, however, is about to change. Why, after so many years of being promised paperless B2B transactions, is it really going to happen this time? We'll discuss this in detail later, but first you need to understand why it hasn't happened yet.

The answer has everything to do with the second "P" in EIPP: payment.

## Payment: How You Typically Transfer Funds Today

You can invest a lot in streamlining and automating your payments workflow, but the foundation of the entire payments automation issue lies in what happens after you, the buyer, "release payment." The following illustration shows what typically happens in today's EIPP environment:



### How payments are typically made in an EIPP-powered Accounts Payable process today

For an automated process, it appears to contain an extraordinary amount of manual labor. This is clearly an expensive, error-prone way to make payments. There are a couple of reasons why the current system works like this.

First of all, because buyers, suppliers and their respective banks are not integrated into a common transaction settlement system (in the same way the very largest enterprises are with expensive EDI solutions), buyers and suppliers cannot automatically transfer funds and remittance information between each other. They can initiate Automated Clearing House (ACH) transfers using payment information they provide to each other, like account numbers, routing information or payment card numbers, but the process essentially remains a manual one.

The other big reason why businesses are not automating B2B payments relates to regulatory compliance. If the supplier's and buyer's respective financial systems are directly connected, they need to store each other's financial information such as checking account numbers and credit card information.

Government regulations require that organizations storing this information must be PCI (Payment Card Industry) security compliant. Becoming PCI compliant is a costly process that requires investing in secure computer systems and paying for regular recertification (recertification alone can cost \$25,000 each time). By employing a semi-manual payment process like the one shown above, buyers and suppliers do not need to store each other's financial information. Consequently, they are able to avoid the expense of becoming PCI compliant (if they do not otherwise need to be).

These are big obstacles to total payment automation. So, what would you do to simplify B2B payments and make them more secure in an ideal world?

#### Does Your Current EIPP Suffer From This Vulnerability?

EIPP systems provide lots of control over who has access and what they can do. These are very "security-minded" systems, in general.

But to complete a transaction, buyers and suppliers typically need to provide each other with bank account or business credit card information. So as long as the payment process has a manual component, there will be unknown people in the payment loop—complete strangers—physically handling your sensitive financial information related to payments and funds transfers.

## What if You Had the Perfect Payments Solution?

Suppose you had the ultimate payments "black box." What would it be able to do for you? It might look something like this:

Payments  
Black  
Box

I want my payments black box to:

- Reduce or eliminate check writing and mailing
- Give me better control over my money
- Let me pay any supplier in whatever way works best
- Be secure
- Be easy to implement and easy to use
- Oh, yes—and do global payments too!

#### Why Not Just Use ACH Payments?

Businesses often do use ACH payments, but even these transfers remain largely manual payment processes.

Back in 2002, Alenka Grealish, Managing Director of the Banking Group at Celent, stated that "The greatest impediment to the adoption of electronic payment vehicles is not the settlement system (like ACH), but lies further upstream. For any electronic payment solution to succeed, it must be integrated into the broader financial supply chain." This remains true today.

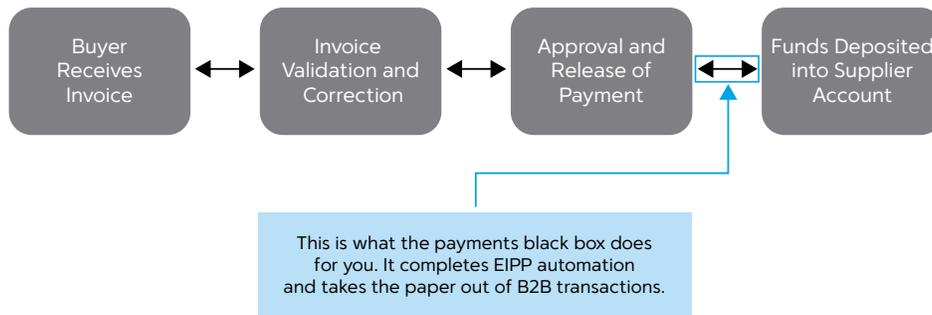
That means the ability to make ACH funds transfers is not enough. Payment needs to be embedded in the solution that automates the entire purchase-to-payment process, and it needs to involve the financial institutions that handle transaction settlement.

In fact, if today's EIPP solutions could actually perform funds transfer and transaction settlement, all of this would be possible. That is the key to automating payment, and it is exactly the innovation that is taking place today. A number of EIPP vendors have discovered how to process payments—and this new capability transforms what EIPP can do for businesses of all sizes.

## The Answer: Bringing Transaction Settlement Into EIPP and Accounts Payable

The solution for automating payments is to bring transaction settlement into the EIPP solutions, and to do this in a way that is simple and that requires neither buyers nor suppliers to be PCI compliant.

The following illustration shows what this means to the purchase-to-payment cycle:



Integrating payment into the EIPP solution seems straightforward and simple enough. So, how do we accomplish it? That depends on who’s doing the transaction settlement. Today, there are two kinds of entities that can settle B2B transactions:

1. Banks
2. Payment processors (such as First Data, for instance)

Not surprisingly, this has led to two different types of payment-enabled EIPP solutions: bank-based EIPP solutions and EIPP vendor-based solutions. These are described in the following table:

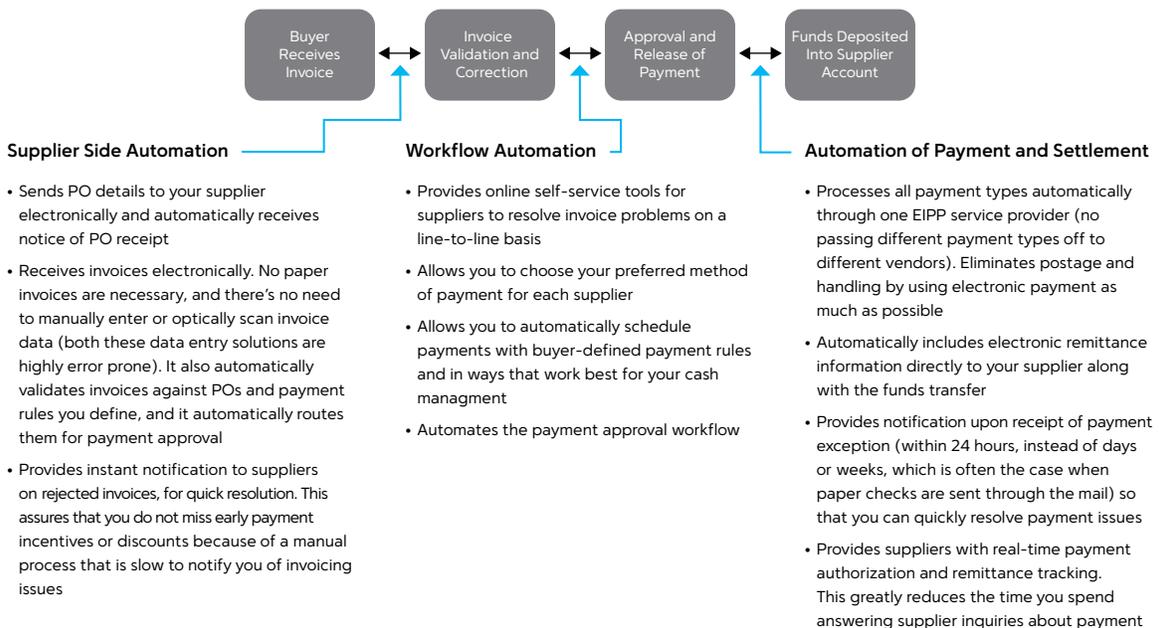
Alternative Solutions for Payment-Enabled EIPP	
Bank-Based EIPP Solutions – Bringing EIPP to the Banks	EIPP Vendor-Based Solutions – Bringing Transaction Settlement to EIPP
<p><b>How They Do It:</b> A few large commercial banks extended the services they offer business customers by acquiring EIPP vendors and incorporating their own transaction settlement services into the EIPP offering. These banks have the network to settle B2B transactions on a large scale, and they are already PCI compliant.</p> <p><b>How It Works:</b> Typically banks require buyers using their EIPP and transaction settlement services to also use their other business banking services. For instance, if you use a business</p>	<p><b>How They Do It:</b> If the banks are bringing EIPP to their commercial banking services, an alternative approach is to bring transaction settlement to EIPP. Some EIPP vendors are establishing relationships with payment processors like First Data. This enables the EIPP vendor to extend transaction settlement services as part of its EIPP offering.</p> <p><b>How It Works:</b> Like large banks, payment processors are well positioned to process and settle large volumes of transactions. First Data, for instance, processes over half of all credit card</p>

<p>credit card or corporate purchase card, you may be required to use a card issued by that bank. You may be required to maintain one or more business accounts at that bank. Some banks require you to do all your business banking exclusively through them in order to use their EIPP services.</p> <p><b>The Advantage:</b> Extending your banking relationship to include EIPP allows you to avoid managing new vendors and could provide tighter control of lines of credit and cash positions.</p> <p><b>The Disadvantage:</b> These systems work well, except for a couple of potential drawbacks. You may lose flexibility in managing your banking relationships and financial products. This also increases your switching costs in the event you wish to change financial services providers.</p>	<p>transactions conducted in the world today. This means it maintains an enormous network of banking relationships. It has direct relationships with thousands of banks all over the world. And, of course, payment processors like First Data must be rigorously PCI compliant. EIPP vendors that are certified to settle transactions through a payment processor must also become PCI compliant.</p> <p><b>The Advantage:</b> There is a clear advantage in working through an EIPP vendor over a bank-based solution. Doing so does not tie you or your suppliers to any one bank. You retain the flexibility to use whatever financial services work best for your business, and that decision is totally independent of, and yet totally compatible with, your EIPP vendor.</p>
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Later in this paper we'll discuss the key criteria for evaluating potential EIPP vendors. Before looking into that, though, how is it that moving payment processing into the EIPP can do so much to transform your accounts payable? Let's see.

## The Transformative Power of Payment-Enabled EIPP

The key to streamlining payment and the entire purchase-to-pay process is choosing an EIPP service provider who can also process your payments. This enables you to close the loop on automating accounts payable and take full advantage of what payment-enabled EIPP allows you to do. Here are some of the important workflow benefits:



With a payment-enabled EIPP, each of these functions is fully integrated into your accounting software or enterprise resource planning (ERP) system. There is no need to jump between different systems to handle or manage various stages of the payments process.

However, beyond the workflow and cost efficiencies gained by automating the accounts payable process, there are other important benefits to you in the way you manage cash, as well as in the security of your payments.

## Better Money Management Part I: Using Payment Options to Your Advantage

One big advantage of working with an EIPP vendor who can process your payments is the ease of handling different payment types. Payment type becomes a setting you select within your accounting system as you set the payment rules for your suppliers. That means you can issue different payment types without having to use a different system (or maintain a different bank or contractor relationship) for each payment type you use.

Here are payment types you would typically have available to you in a payment-enabled EIPP system:

- **Standard Electronic Funds Transfer (EFT) payments, the most common being ACH transfers –**  
Processing an ACH payment costs less than the price of a postage stamp. This makes ACH payments a lot less expensive compared to paper checks which must be printed and stuffed into envelopes along with remittance information, or even electronic remittance information that must be sent as a separate process. Working with a payment-enabled EIPP provider makes this a low-cost, one-step process by batch-processing ACH payments to minimize costs and fees
- **Purchase Card –** Use of corporate purchase cards, also known as P-cards, has begun to expand beyond its traditional use for high volumes of low cost transactions. Purchase cards have the convenience of credit cards, plus the added controls needed for secure B2B transactions. More and more companies are using purchase cards for larger supplier purchases.  
Purchase cards offer several advantages. In addition to the convenience and itemized transaction reporting they provide, new payment gateway technology enables transactions to happen without exposing the card number (or in reality, the account number, because there is no physical card). No one on the buyer's staff or at the supplier needs to know the card number. This feature considerably reduces the likelihood of fraud and makes the system appropriate and trustworthy for higher-dollar purchases.  
Because purchase cards allow buyers to initiate both the transaction and payment, they give buyers more control over cash management. For more information about what's new with P-cards, see the First Data paper "*The Corporate Purchase Card: A Catalyst for New Growth in B2B eCommerce*"
- **Disbursement Card –** A disbursement card is a type of P-card used for high-dollar line-of-business purchases that are usually more tightly monitored and controlled by the business. Sometimes the cards are designated for one-time use on a large expenditure. Some suppliers are using disbursement card models with their buyers that enable them to initiate payment from the buyer's bank right at invoice time, while the bank collects from the buyer according to the payment term of the card (e.g., 30 days).  
The advantage of this for the supplier is obvious: it gets use of the funds earlier. But there is also an advantage to the buyer: When the supplier initiates payment in this way, exchange fees associated with a card transaction shift from the buyer to the supplier, which saves the buyer money on the transaction

- **Global Payments** – Global eCommerce has made it easier for buyers to find international sources for the products and services they need to make their businesses competitive and keep them growing. However, one of the biggest obstacles to further streamlining the supply chain is payment. Both buyers and suppliers seek faster, lower risk ways to make and receive international payments. First Data enables its affiliated EIPP vendors to process global payments as easily as any other kind of payment. This means if you have foreign suppliers who enroll with the EIPP service provider, the way you pay them is just as simple and transparent as if that vendor were next door. This makes it easier for you to take advantage of a global supply chain
- **Conventional paper checks** – EIPP service providers can also issue paper checks for buyers and suppliers that require them. Paper checks cost more and provide less control over the timing of the actual funds transfer, but if circumstances or preferences necessitate them, a payment-enabled EIPP can handle them. They are issued as part of the EIPP payment process; you will not need a separate contractor or internal system to issue paper checks
- **Payroll cards** – Some full-service EIPP service providers even integrate payroll cards into their offering, making it simple to provide the flexibility and convenience of electronic disbursement (instead of paper checks) for un-banked and under-banked employees. For more information on payroll cards, please read First Data's white paper, "*Achieving Electronic Pay for All Employees*"

Because you can manage all of these payment types through one point of entry—your EIPP vendor whose solution is integrated with your accounting software—it is much simpler to select and use the optimum payment types for specific suppliers and transactions. But there is more to the money management story than payment flexibility.

## Better Money Management Part II: Using Automated Payment to Capture Payment Discounts

### Missed Opportunity

Studies by PayStream Advisors, a research and consulting firm specializing in B2B and B2C payments, have found that at least half of all organizations are unable to capture between 50 percent and 70 percent of discounts offered by their suppliers. This happens most often because the AP department is unable to approve and pay invoices within 10 days.

The greatest financial benefit of all could come from enhanced control over payment timing. According to the procurement trade publication *Spend Matters*, businesses can earn a 20-percent or greater annual return on their invested capital by making early payments to suppliers.<sup>3</sup>

Consider this example: Suppliers often negotiate payment terms that provide incentive for early payments, such as "2% 10 net 45." This means that if the buyer pays within 10 days, it gets a 2-percent discount. Otherwise, payment is due in 45 days. Suppliers do this so they can have the benefit of receivables cash on hand sooner, which helps with their own balance of payments. And buyers like having the opportunity of receiving significant discounts by paying early.

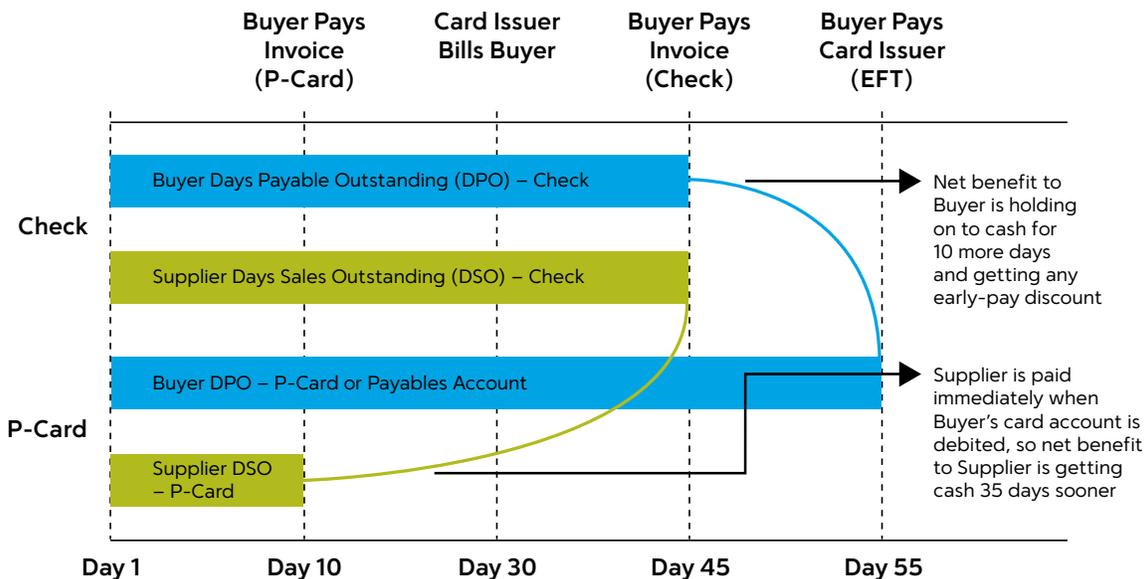
However, many companies with slow, manual payment processes are missing the chance to take full advantage of payment discounts. By improving invoice accuracy, approval workflow and payment timing, payment-enabled EIPP significantly improves the ability for companies to systematically earn early payment discounts. You can negotiate advantageous early payment terms with your suppliers and easily set them up in the rules-based automatic payment system in such a way to take full advantage of supplier payment discounts. And payments will go out on time.

Here are key cash management benefits realized by both buyers and suppliers when accounts payable is automated:

- Buyers can more reliably take advantage of payment discounts and lower cost payment types. Because of this and the tighter control afforded by EIPP, buyers can also do a better job of cash flow forecasting and working capital management
- For suppliers, early payment is like low-cost financing that can strengthen their balance sheets and reduce their need to rely on higher-cost financing. For this reason, suppliers increasingly prefer—and in some cases even insist—that their buyers use an EIPP system with automated payments
- Suppliers are able to accelerate their cash conversion while buyers can effectively extend their payment terms when making payments with on a purchase card or disbursement card. It also makes it simpler to set mutually beneficial payment parameters at contract time. For example: “ACH with discount paid in XX days, P-card with discount paid in YY days and ACH with no discount paid in XX+ days” (with P-card being the earliest payment date, ACH with discount next and ACH with no discount the latest payment date term in the agreement between the Buyer and Supplier)

This last bullet point is very important, and it is an effective way for buyers and suppliers to come together through EIPP to strengthen their relationship.

The following illustration shows how automated payments from a payment account like a purchase card or disbursement card can reduce the supplier’s days sales outstanding (DSO) while increasing the buyer’s days payables outstanding (DPO). This means suppliers get their money sooner while buyers hang on to their money longer.



By enabling payment from within the EIPP process and automating the complete purchase-to-payment cycle, you will greatly reduce the cost of your accounts payable, minimize the cost of actually making payment and benefit from better money management.

## The Security Advantage: Three Security Benefits Gained From Automated Payment

1. According to a survey done by the American Payroll Association, the top 1,000 companies in the United States rank check fraud second on a list of crimes that damage them most, right after embezzlement.<sup>4</sup> Automated electronic funds transfers and corporate purchase card payments reduce the possibility of check fraud, saving companies the time and money of tracking down and resolving lost and stolen checks
2. Because only authorized personnel initiate purchase card or disbursement card payments that are completed with account information stored in the system, these kinds of payments eliminate the handling of credit card numbers in the course of completing a card transaction. In a manual payable system, this information is often passed over the phone or even written on an invoice. This type of risk exposure is dramatically reduced with purchase card payments
3. Neither buyers nor suppliers need to be PCI compliant. As discussed previously, PCI compliance is expensive to initiate and costly to maintain. Even large enterprises are not exempt from the burden of these costs. As an example, one large enterprise that has 26 offices worldwide making B2B payments found that each of those offices would need to become PCI compliant. On the strength of that requirement alone, this company has chosen to move all its offices worldwide to a single EIPP service provider

Situations vary from one organization to another, so it's difficult to make an accurate prediction about the expected return on investment in a payment-enabled EIPP, but many businesses report a positive return within just a few months. And the return keeps getting better as more and more of your suppliers enroll with the EIPP service provider. Which brings up one more important point—what are the essential criteria for deciding if an EIPP service provider is the right one for you?

## What to Look for in a Payment-Enabled EIPP Service Provider

The advantages of fully automating accounts payable are clear. The simplest and most cost-effective way to do this is by implementing an EIPP solution that is payment-enabled.

So what are key considerations when deciding what kind of EIPP vendor to work with? Here are the most important ones:

- **The EIPP vendor is payment enabled.** This means it does more than just automate the workflow that leads up to payment approval and release of payment. It actually processes the payment, regardless of the payment type you need for a particular supplier, and it executes the funds transfer

### EIPP Vendor Checklist

- The EIPP vendor can settle your transactions and transfer funds to your suppliers
- The EIPP vendor is PCI compliant
- The EIPP solution provides the full range of accounts payable functions, including issuing POs, receiving electronic invoices, validating invoices, managing payment approval workflow and making payment
- The EIPP vendor processes the payment types you use
- The EIPP vendor has a good list of enrolled suppliers relevant to your business activity
- The EIPP vendor's software is compatible with your accounting software or ERP

- **The solution is a full-featured EIPP offering.** This means the EIPP solution performs the full range of EIPP functions, which includes issuing POs, receiving electronic invoices, validating invoices, managing payment approval workflow and making payment.

Some vendors market what they call EIPP solutions, but they are in reality partial solutions that only address part of the purchase-to-payment cycle. OCR (optical character recognition) is a good example of this. OCR vendors sell products that scan paper invoices and turn them into electronic invoice data. They often promote these as EIPP solutions. Scanning paper invoices is useful as far as it goes, but the true savings offered by real EIPP comes from eliminating paper invoices altogether. It is important to also note that paper invoices are not going to go away altogether any time soon, so an ideal EIPP solution will effortlessly handle paper invoices and electronic invoices

- **The EIPP vendor has the ability to process the payment types you make.** If you use P-cards or disbursement cards for some of your transactions and also have global suppliers, you want to be able to process all of these payments through your EIPP. Select an EIPP vendor that can process the range of payment types you use and also possesses the ability to minimize interchange expense by providing Level 3 data or accessing of the card associations' Large Ticket and Buyer-Initiated payment options
- **The EIPP vendor has a list of enrolled suppliers that work in your market space.** In order for a supplier to work within your automated invoice and payment system, it must be enrolled with the EIPP vendor you use. Successful EIPP vendors typically make supplier enrollment a very easy process. Many suppliers already have their own EIPP solution, and buyer-to-supplier payables communications often takes place between their respective EIPP vendors. Increasingly, one EIPP vendor handles both buyer and supplier.

Although some would have you believe that EIPP vendors with enormous lists of suppliers are the best, this is not necessarily the case. The important question is whether they are the right suppliers for you.

There are many EIPP vendors who specialize in particular market segments. For instance, some EIPP vendors only handle health care markets, and others specialize in certain kinds of manufacturing or distribution. It is more important to work with an EIPP that does business in your market space. That EIPP vendor is likely to already have suppliers enrolled who are like the ones you need. It is also likely to be working hard to expand its list of suppliers in that market segment

- **The EIPP vendor's software is compatible with your accounting software or ERP system.** A key benefit of automated accounts payable is the simplicity of having one point of entry—your accounting or ERP system—for all purchase-to-pay activity, including different payment types and global payments. This vastly reduces the complexity of your accounts payable process, and it diminishes the number of business relationships (i.e., banks, check-writing or payment services, international payment processors) you need to maintain when working with all of your suppliers.

Once an EIPP vendor integrates its software with a particular accounting software or ERP application, it's easy for them to do it again. That's why EIPP vendors typically specialize in operating in certain software environments. Some work with many applications while others focus on a few. And some only focus on one. Oracle, for instance, markets an EIPP solution that only works with its own ERP solutions, and that makes perfect strategic sense for Oracle. But if you are not already an Oracle ERP user, it may not make sense for you

## Summary: Getting Started With True Payment-Enabled EIPP

The key to fully automating accounts payable is enabling payment from within the EIPP solution. This allows you to automate the complete purchase-to-payment cycle, which saves you money in your accounts payable process, reduces the cost of actually making payment and allows you to gain from better money management. Additionally, your payments will be more secure.

A payment-enabled EIPP solution is a complete purchase-to-payment solution that not only integrates fully with your accounting software or ERP system, but also processes actual payments and performs the funds transfers. That means you are able to move to completely paperless accounts payable with all suppliers who are enrolled with the EIPP. Some studies show that even if less than half your suppliers sign up for fully automated invoicing and payment, you will enjoy a positive return on investment within months.

Because of this recent shift in the EIPP story—the ability for EIPP to now process payment—it's the perfect time to rethink your accounts payable and receivable processes. The cost of processing manual payments is increasing, and regulations requiring more transparent transaction reporting are becoming more stringent. With the cost of manually processing an invoice ranging between \$10 and \$100 (versus \$2 or less for fully automated payments), businesses cannot afford to continue outdated labor-intensive accounting processes.<sup>5</sup>

If you already have an EIPP solution, you should re-evaluate it in light of the entirely automated payment functionality that some EIPP service providers can now offer.

If you do not currently have an EIPP solution, know these things:

- The cost of integrating with your accounting software or EIPP can be very inexpensive, especially if you work with an EIPP that has already integrated the software you use
- Your suppliers who use EIPP now will appreciate your move to electronic invoicing and payment. If your suppliers are not using EIPP, they will soon grow to appreciate working with your system. Making it simpler and less expensive for your suppliers to do business with you ultimately benefits everyone in the value chain
- Choose an EIPP application that can easily communicate with other EIPPs. This ability to readily interact using common industry standards for purchase orders, invoices and payments in a secure manner will further automate the supply chain and your accounts payable and accounts receivable processes

**If you have any questions about automating accounts payable or payment-enabled EIPP, please contact me or any member of my team. We understand B2B payments processing, and we can help you find a suitable EIPP vendor in your market space. Contact me at [jim.lister@firstdata.com](mailto:jim.lister@firstdata.com).**

## Sources:

<sup>1</sup>Forrester Research, "Predictions 2009: ePurchasing Market," March 2009.

<sup>2</sup>Forrester Research, "The Forrester Wave™: AP-EIPP, Q2 2008," June 2008.

<sup>3</sup>*Spend Matters*, "Beyond Requisitioning," June 2009.

<sup>4</sup>American Payroll Association, November 2002.

<sup>5</sup>Forrester Research, "The Forrester Wave™: AP-EIPP, Q2 2008," June 2008.

### The Global Leader in Electronic Commerce

First Data powers the global economy by making it easy, fast and secure for people and businesses around the world to buy goods and services using virtually any form of payment. Serving millions of merchant locations and thousands of card issuers, we have the expertise and insight to help you accelerate your business. Put our intelligence to work for you.

### About The Author

**Jim Lister**, vice president of eCommerce Solutions, focuses on B2B opportunities for First Data. He has an extensive financial services and banking background covering 29 years in the industry, with the past 12 of those years with First Data. Jim has particular expertise in payment processing and cash management services, as well as overseeing implementations and enhancements for both the Issuing and Acquiring programs for purchase and disbursement cards.

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