Technology & Treasury Management Supplement

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Contents

Enabling Efficiency

Welcome to the first Technology & Treasury Management Supplement *Global Finance* has published. We recognize that technology has always been a key enabler of treasury management, with treasury management workstations and enterprise resource planning (ERP) systems facilitating the everyday financing and accounting functions that underpin the running of most companies.

In the wake of the recent financial crisis, more corporate treasurers are focused on eking out even greater efficiencies in their treasury management processes via centralizing and automating key functions. One of the technologies that has received considerable attention in recent years is e-invoicing. It could potentially save companies millions if they are able to automate traditionally manual, paper-based processes and utilize e-invoicing to deliver greater efficiencies as part of a complete re-engineering of the order-to-pay process. As the invoice triggers payment, automating it can result in further working-capital efficiencies, particularly if it is tied into financial supply-chain offerings such as invoice discounting and supply-chain financing.

Despite the obvious benefits of e-invoicing, only 2% to 10% of total invoices are transmitted electronically. It has been difficult to get a critical mass of users for e-invoicing for a multitude of reasons—including different treatment by European Union tax authorities of electronic invoices and digital signatures and a lack of supplier uptake. Some of those firms that have engaged in e-invoicing projects have encountered difficulties scaling the system up, which has meant that, so far, few companies have taken the plunge. However, as IT payback cycles lengthen again and companies become more socially responsible in terms of reducing their environmental impact, e-invoicing has returned to the top of companies' agendas again. Authorities are also realizing they need to work to reduce the complexities of different legal, tax and regulatory discrepancies around e-invoicing.

Another sweeping change in the area of technology and treasury management is growing user acceptance of treasury management modules within ERP systems. Historically, as the treasury management functionality within ERP systems was found to be wanting, treasurers opted for dedicated treasury management software applications from third-party software providers. However, as ERP vendors enhance their treasury management functionality in order to bring it up to speed with dedicated treasury management systems, treasurers are starting to look more seriously at what they already have. Most large treasuries have already invested in ERP systems, so the ability to re-use that technology is a more compelling argument than having to find resources to support a dedicated system.

In this supplement, we cover these issues and more.

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E-Invoicing Finds Favor Again

Companies are taking a second look at electronic invoicing as they begin to evaluate longer-term efficiency and cost reduction programs for the financial supply chain. By Denise Bedell

With the treasury and cash management technology market maturing and implementation simplifying, and as companies begin to look at longer-term investment in IT, e-invoicing is once again sparking increasing interest, both for stand-alone projects and as part of broader financial supply-chain electronification. Once lauded as a simple and easy way to garner savings in the financial supply chain, the recent slowdown initially saw e-invoicing become the project most likely to be mothballed. Now e-invoicing projects are being dusted off and re-evaluated as companies search for deeper ways to reduce costs—and build their reputations as green operations.

Although e-invoicing technology has been in the market for a long time, penetration is still low. Christian Schaeffer, product head of financial supply chain management EMEA at Deutsche Bank, says: "What you see is penetration levels in the area of 2% to 10%, so basically nine out of 10 invoices sent out are still paper." The cost and time for implementation and the need to get vastly different suppliers on board has made it a difficult proposition in the past.

However, more companies are starting to participate in e-invoicing schemes, either as a project in its own right or as a stepping stone to a larger financial supply chain retooling. "Interest in e-invoicing was flat coming into the economic crisis, and then during the crisis, with the whole concept of cash is king, the real focus became improving cash management," says Steve Sprague, a spokesperson at solution provider Crossgate. "People began looking at how they could take advantage of discounted prepayments, and e-invoicing started to regain interest."

Part of the reason for the dip in activity was that during the crisis companies wanted an immediate return on any investment. They were seeking opportunities to reduce costs but looking at costs on the very short term. "These programs help reduce costs but the implementation schedule could be a year or two," Schaeffer says. "They were looking for an immediate significant effect, so the economic environment was not in favor of e-invoicing over the last two years."

Coming out of the crisis, the acceptable turnaround period for payoff on IT projects has begun to lengthen again. As a result, companies are looking more seriously at the benefits of electronifying all or part of their financial supply chains with solutions such as e-invoicing.

A Desire to be Lean and Green

An increasing focus on corporate social responsibility (CSR) is also a big driver of interest in e-invoicing and other paper-reducing schemes. "Companies are looking to reduce the expense associated with paper invoices and purchase orders, but they are also looking at it as part of their sustainability drive. They are starting to see it as a way to reduce the pounds and pounds—or trees and trees—of paper invoices they are receiving," says Hubert Jolly, managing director and global head of commercial cards and procure-to-pay for Citi Global Trans-

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action Services. Joseph Pacor, a solution expert at SAP, adds, "The desire to be green and lean at the same time is starting to generate a lot of interest in solutions for e-invoicing."

Another big driver is the need for greater clarity and visibility for regulatory purposes. Nancy Atkinson, consultant at Aite Group, says: "With Sarbanes-Oxley, the accounts payable [AP] side grew far more interested in electronic invoicing. They realize that they are wasting a lot of time when they have such a manual process." Data automation allows a company to have increased control and improved ability to monitor and report performance.

But the biggest driver is still cost savings. By electronifying invoice creation and transmittal on the supplier end, and receipt and processing on the buyer end, it allows a company to automatically pull that data into its AP systems and other in-house systems such as enterprise resource planning (ERP). The most immediate saving is, of course, removing the cost of sending, handling and storing paper invoices.

In addition, with the wealth of information that buyers glean from the e-invoicing system, they can better take advantage of prearranged discounts by ensuring invoices are paid on time. They can use that data to negotiate better terms with suppliers, and they can also look at dynamic discounting, where a buyer and supplier can actively change payment terms to increase discounts for the buyer in exchange for faster payment.

"We are seeing clients going into e-invoicing for the benefit of having dynamic discounting," says Jolly. "Clients accumulated cash during the crisis and in turn would like to make use of that by extending cash to suppliers and getting a discount in return for early payment." So they use up some of the cash they have stored to pay suppliers earlier, and in exchange take advantage of discounts that they work out with suppliers as they go.

Electronic Invoice Creation Takes Off

There are various ways that invoices can be electronified. In the past many suppliers balked at changing their processes, and solution providers offered either paper invoice scanning and data capture or a portal where suppliers could go to manually input invoices. Both these processes continue to be used, but both are inefficient and do not fully automate data flow.

"The days of using OCR [optical character recognition] or scanning technology to handle paper invoices seem to be on the way out," says Shan Haq, global vice president of marketing at e-invoicing firm Transcepta. The next phase is to move suppliers to electronic invoice creation, rather than electronification after the fact. The business case for suppliers is clear, as it creates cost savings on sending invoices, faster payment and better data and data integration. And the technology available to connect suppliers is getter simpler, driving down the time and cost from a supplier's perspective. This is a critical change for the market, and one that could help it expand sharply.

Tihilä: "Companies are really making the effort to move from paper"

Slow uptake and penetration is the result of the complex nature of implementation projects—the time and resources that must be invested before pay-off begins, the difficulty in getting suppliers on board and the kicking off of the network effect—where there is a certain critical mass of penetration that must be reached before its acceptance starts to multiply rapidly. "Many big innovative advances have been stalled by the need for the network effect to take hold. This is a key driver in the market," says Schaeffer.

Building internal consensus for the business case and articulating that well up the management chain was also a big challenge in the past. But now many senior executives are much more on board and may even be driving the initiative, given increased global awareness of the advantages of electronifying the financial supply chain.

Schaeffer adds that the sheer number of possible providers can make it difficult to select a technology partner. "There are a lot of providers in the market, so it may be unclear who to choose," he says. "In addition, there may be concerns over the legal environment and the applicability of e-invoices, especially if they are going cross border. So, many companies are still hesitant to implement a program."

But many countries are working to deal with the issues of cross-border legal and regulatory discrepancies, issues around taxation, and country-specific rules around invoice standards. "So far the most advanced markets are in the Nordic countries. But the US market is starting to pick up, especially as large corporates start to show the way for others," says Esa Tihilä, senior vice president of connectivity services at Basware. "This is the same with large European markets, such as the UK, Germany and France. Companies are really making the effort to move from paper to electronic formats." ■

New Solutions

Treasury modules offered by enterprise resource planning systems providers are threatening full-suite treasury systems. By Denise Bedell

As companies focus more on cost savings, there is an equilibrium that must be maintained between reducing spend on IT investment and garnering savings through IT spend. This can be a difficult balancing act, and one that is keenly felt when considering investment in treasury management systems. It can be the deciding factor when selecting between treasury management systems (TMS) and the treasury and investment modules offered within an enterprise resource planning (ERP) system.

TMS providers, such as SunGard, Wall Street Systems, Thomson or IT2, are able to provide the most complete solution geared specifically for treasury operations, but not every company needs or can use all of that functionality. For many of the largest companies, the full suite makes most sense. When looking for depth of functionality specific to traditional treasury management functions, there is nothing better than a dedicated TMS.

TMS vendors have an edge over ERP providers in that they offer distinct and well-developed modules for some of the biggest risk areas encountered by companies today, including FX, derivatives and hedging. In contrast, ERP functionality for these mission-critical operations is sandwiched within one module. "Especially given where we have been in the currency market, with the volatility we have seen, we are seeing a lot of companies focus on this," says Paul Bramwell, senior vice president of treasury solutions at SunGard AvantGard. "They want to be able to identify risk and be able to hedge it out efficiently and effectively. And they want to be able to move seamlessly from one portal to another," he adds.

However, there are also clear advantages to using a module from a company's incumbent ERP—not least the cost of ownership. "There are different reasons that people come to us for treasury management solutions. The first and most obvious is to drive the costs out of treasury infrastructure," notes Craig Himmelberger, director of ERP financials solution marketing at SAP. Often the use of treasury and investment modules will add little or nothing to the cost of ownership of an incumbent ERP.

Shan Haq, global vice president of marketing at solutions provider Transcepta, adds, "Companies are looking to leverage existing investments and ensure money they spend will have a good return." The low cost of ownership is clearly a big plus for IT-spend-conscious companies. Plus, using an ERP allows the treasury to take advantage of non-core treasury products within the ERP. Judson Murchie, analyst at Aite Group, notes: "An example of this is Oracle's Crystal Ball application, an enterprise-wide reporting and analytics engine. Crystal Ball is used by many treasury groups for robust cash forecasting to model cash flows and provide support for risk management through stress testing and scenario analysis."

And then there is the IT infrastructure. With an incumbent ERP, there is already a knowledgeable in-house IT staff—a staff that may not look too kindly on having to get up to speed with a one-off system.

The potentially seamless integration offered by ERPs with other in-house systems is another advantage. Enrico Camerinelli, senior analyst at Celent, says, "More than the richness of functionalities, it is the seamless integration with the ERP that establishes a strong foothold." Himmelberger notes, "The best customers for us are not those looking at individual pieces in a vacuum but those looking to understand how treasury impacts all sorts of other areas of the company." This is something that treasurers are increasingly aware of—the need to look beyond the walls of treasury and into such processes as the financial supply chain.

Value for Money

Both TMS providers and ERP providers are looking to deliver better value to their clients—albeit in different ways. A number of TMS providers are now offering both a dedicated workstation approach and a browser-based or application service provider (ASP) approach. Which one a company will choose may depend on the size and complexity of the organization.

"Companies want the ability to use and leverage the Internet to reduce the cost of ownership. Most clients are looking to have lower cost of ownership," says Mark Lewis, director, corporate treasury, at Wall Street Systems. "In addition, clients may move towards the ASP model to take IT management out-of-house."

Ultimately, though, whether a company chooses an ERP or a TMS vendor may have more to do with who is making the decision than with functionality. ■

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