

# Controlling Spend and Optimizing Payments with EIPP

## The Benefits of Using Purchasing Cards as a Settlement Vehicle

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## Executive Summary

Many organizations struggle with fragmented, multi-step invoice procedures that are not only time-consuming but expensive. While companies have introduced automation into their procurement process to improve purchasing efficiencies, invoice and payment processes remain largely paper-based and labor intensive. Without proper resources or a systematic approach to working with suppliers, these companies often mismanage supplier discounts or lose out on opportunities to improve working capital. What's more, the need for an audit trail to comply with Sarbanes-Oxley requirements has forced many companies to devote additional resources to tracking suppliers and payments.

Traditionally, organizations have used purchasing card programs and corporate charge cards to eliminate purchase orders (POs) and invoices for low-dollar, high-volume transactions. To gain further control over invoicing and payment processes and address a broader transaction spectrum, Electronic Invoice Presentment and Payment (EIPP) solutions are also gaining traction. EIPP enables companies to receive invoices electronically from suppliers and process electronic payments on the back end—capturing full invoice details and providing additional controls across both non-PO and PO-based spend. And since the purchasing card is also a settlement option within EIPP, companies have an opportunity to expand on the benefits and relevance of a traditional purchasing card program when it's used in tandem with electronic invoicing.

By combining electronic invoicing with their purchasing card programs, companies gain an automated and streamlined invoicing and payment process that reduces costs and increases controls. The use of electronic invoicing in conjunction with a purchasing card program also offers companies a unique opportunity to better manage working capital. It allows companies to manage days payable outstanding (DPO) and potentially benefit financially from increased float.

## The Evolution of Automation within the Invoice and Settlement Processes

Over the past 10 years, many companies have invested substantial IT dollars in financial and procurement systems in order to automate sourcing and ordering processes. Initiatives in these areas continue to yield significant benefits. First, they allow companies to reduce costs associated with holding inventory. Second, they enable companies to utilize spend analysis and consolidated buying to drive better pricing and more favorable terms with key suppliers.

However, automation initiatives have not been as widely adopted for invoice and settlement business processes. These processes remain largely paper-based, labor-intensive, and costly. In fact, companies typically receive 80% of all invoices in a paper format and pay 65% of invoices using a paper check. (Source: Aberdeen e-Payables Benchmark Report, March 2007) In addition to being inefficient and expensive, these manual processes limit a company's ability to adequately control cash flow and spending.

In most cases, companies have applied purchasing card programs to streamline the purchase order and payment processes for low-value, high-volume transactions. According to the National Association of Purchasing Card Professionals (NAPCP), purchasing cards can drive transactional cost savings of 55% to 90% and provide additional spend controls. However, companies have been reluctant to expand the use of purchasing cards to include larger-dollar or direct-spend purchases. Purchasing card spend remains a relatively small percentage of total company spend because stand-alone purchase card programs are unable to meet certain compliance criteria and do not support line-item reconciliation of the purchase order to the invoice.

One of the most promising technologies to help automate and streamline invoice processing and payment is EIPP. EIPP enables companies to receive invoices from suppliers, process them electronically, and then initiate electronic payments. Paper and faxed invoices can be converted into electronic formats or suppliers can choose to submit invoices online or upload them into the EIPP platform. EIPP then processes invoices electronically for payment via Automated Clearing House (ACH), purchasing card, or other methods. As a result, companies are better able to manage approvals, payments, disputes, and reconciliations—all from the convenience of a single solution.

## Benefits of EIPP

There are several benefits of implementing EIPP. The most immediate return a company can expect is a reduction in costs. Cost savings are typically generated in two ways. First, automation reduces errors and duplicate payments. Automation also facilitates dispute handling and reduces the time required to approve and review invoices. These improvements can drive up to a 75% overall reduction in processing costs. Second, by switching from check to electronic payment, a company eliminates its check printing and issuing costs and reduces its bank fees.

Another benefit particularly interesting to many companies is the ability to capture negotiated supplier discounts. Companies that do not leverage EIPP often miss discounts since their invoicing and payment process extends beyond the negotiated terms. With EIPP accelerating invoice approval and payment processing, companies can take advantage of the discounts they have already negotiated with key suppliers.

A third benefit of EIPP is increased controls and compliance. Companies can consolidate vendor data from multiple systems by uploading data into the EIPP platform. This vendor database can be verified to ensure consistency and create a reliable, accurate source of vendor data, enabling better spend management and supplier rationalization. In addition, the invoice review and approval process can be automated based on user-defined rules, allowing unprecedented control and straight-through purchase-to-pay processing for invoices that meet predefined criteria. Another important control feature of an EIPP solution is its ability to produce an electronic record—or audit trail—of all invoices, payments, and communications that run through the platform. This offers companies full visibility to the invoice and payment process and makes reporting for Sarbanes-Oxley compliance easier.

A final benefit of EIPP is its ability to offload work from accounts payable (AP) personnel. With fewer AP staff members devoted to manual data entry and handling of invoices, the AP department is able to focus on more strategic tasks, such as analyzing data and negotiating discount terms with more suppliers.

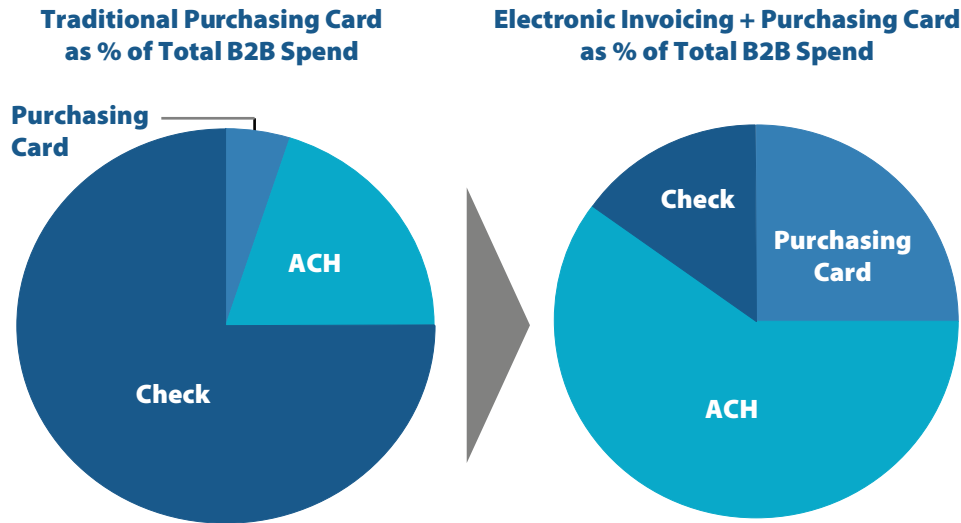
The rest of this paper will discuss the significant benefits that companies can expect when they implement electronic invoicing in conjunction with an expanded purchasing card program.

## Expanding a Purchasing Card Program with Electronic Invoicing

Using an EIPP solution with a seamlessly integrated purchasing card program addresses many of the concerns that organizations have when considering the expansion of their purchasing card program beyond traditional commodities. An integrated solution provides buyers the flexibility to either reconcile an invoice with a PO at a line-item level or to approve a non-PO-backed invoice before payment. Additionally, the combination of electronic invoicing and purchasing card within a single platform supports automated reconciliation between invoices settled on a purchasing card and the monthly purchasing card statement. Enhanced controls such as these allow companies to expand the range of commodities on which they settle via the purchasing card.

There exists tremendous opportunity to expand an existing purchasing card program by combining it with electronic invoicing. The result is a general migration to electronic payments such as ACH and purchasing card from paper-based or check payments, as illustrated in Figure 1.

Figure 1: Illustrative Purchasing Card Program Expansion through Electronic Invoicing



### The Benefits of Using the Purchasing Card as a Settlement Vehicle within EIPP

By using electronic invoicing with a seamlessly integrated purchasing card, companies can expect substantial benefits. Specifically, leveraging purchasing cards as a settlement vehicle within EIPP allows companies to:

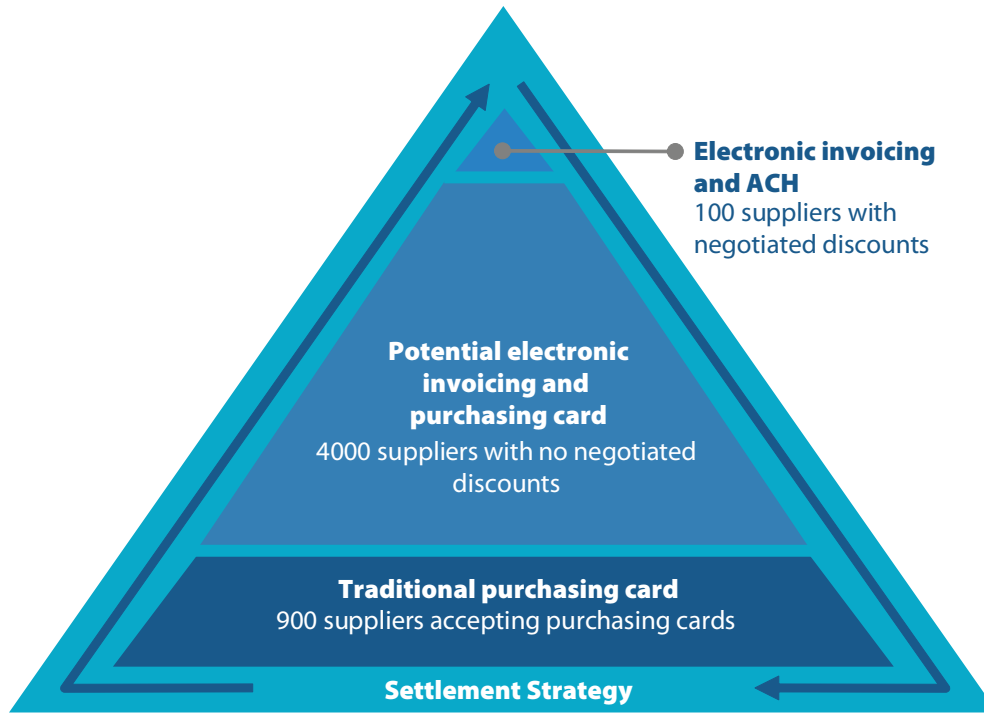
- Improve working capital by managing days payable outstanding.
- Increase controls by enabling automated approval prior to settlement on the purchasing card, capturing full line-item detail, automating reconciliation, and limiting the need to share account numbers with merchants.
- Strengthen supplier relationships by offering suppliers consistent and accessible remittance data, speeding payments, and improving visibility into invoicing process.

Let's look at each of these benefits in more detail.

#### Improve working capital

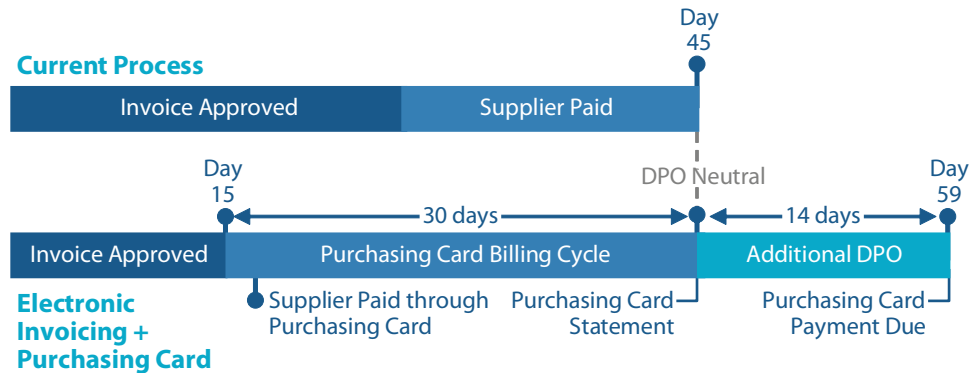
Settling on a purchasing card within an EIPP solution with targeted suppliers allows companies to manage DPO, resulting in significant cash flow benefits. Let's consider a hypothetical manufacturing company that works with 5,000 suppliers. Assume the company has negotiated discounts—such as 2/10, net/30—with 100 of its top suppliers. For the high-volume, low-value transactions, the company has approximately 900 suppliers accepting purchasing cards. However, the remaining 4,000 suppliers do not offer any payment discount and do not accept purchasing cards. In this scenario, the company has no resources to negotiate supplier discounts with the majority of these 4,000 suppliers, shown as potential candidates for electronic invoicing and purchasing card in Figure 2.

Figure 2: Illustrative Supplier Settlement Strategy



To reduce costs, the company could use its purchasing card to settle with a portion of these 4,000 suppliers. By doing so, the company would benefit from extended float as a result of the increase in DPO. In this example, assume suppliers are normally paid in 45 days. If the company approves the invoice on day 15, and that same day is also assumed to be the beginning of the billing cycle, DPO could increase from 45 to 59 days. This occurs because the company has 30 days of float until the end of the billing cycle, plus the additional 14-day period between the statement date and the payment due date. Thus,  $DPO = 15 + 30 + 14 = 59$  days versus the net 45-day terms that would otherwise dictate settlement. In addition, their suppliers could receive payment earlier. Figure 3 demonstrates this DPO extension opportunity.

Figure 3: Illustrative DPO Extension through Electronic Invoicing and Purchasing Card Settlement



## Increase controls

By using electronic invoicing in combination with a purchasing card program, companies can benefit from significant control improvements. Pre-approvals and additional line-item detail generate greater control while integration and tighter account control improve security.

- **Pre-approval options**  
For maximum control, companies have the option of pre-approving an invoice for payment prior to settlement on the card. This automates approval and payment, enabling straight-through processing and faster payment to suppliers. For increased flexibility, pre-approval can be automated based on a combination of factors. Pre-approval thresholds can be set by supplier, by invoice amount, or by company-wide limits. For example, a buyer could decide to pre-approve all invoices from a certain supplier that are under \$2,500 prior to settlement to the purchasing card. Control is always maintained since invoices can still be reviewed and reconciled by the buyer after settlement.
- **Invoice line-item reconciliation**  
EIPP facilitates invoice line-item reconciliation with a PO and a goods receipt, where relevant. Unlike a traditional purchasing card program, all invoices paid using a purchasing card in conjunction with electronic invoicing are fully reconciled. By providing this three-way line-item reconciliation between the PO, invoice, and receipt, electronic invoicing allows companies to expand the use of purchasing cards to those categories of spend that need enhanced control, such as inventoried stock, direct goods, and capitalized assets.
- **Purchasing card statement integration**  
POs are also reconciled at an aggregate level to the purchasing card statement. This reconciliation provides reassurance that the amount that the buyer owes the card company is correct.
- **Account control**  
Finally, by using purchasing cards in conjunction with electronic invoicing, companies improve security because they no longer need to provide their card account numbers to the merchant or even company employees, reducing the opportunity for unauthorized charges to occur.

## Strengthen supplier relationships

In addition to improving working capital and increasing controls, companies extend valuable benefits to their suppliers when they use a combination of electronic invoicing and purchasing cards to process transactions. These supplier-related benefits include:

- **Improved cash forecasting**  
The EIPP platform improves process visibility for suppliers, allowing them to view not only the status of invoices, but also pending payments. This, in turn, improves the supplier's ability to accurately forecast cash flow.
- **Accelerated cash collection**  
EIPP results in faster payments to suppliers—in as few as three days from invoice approval. When purchasing cards are used as the form of payment within EIPP, buyers can pay suppliers sooner. However, a company always maintains full control over the approval and validation of the invoice for payment.
- **Reduced operational and processing costs**  
Because the EIPP platform enables suppliers to check the status of invoices 24/7, it eliminates frequent supplier inquiries to the buyer, speeds invoice resolution, and reduces costs associated with the invoicing process. Additionally, purchasing card settlements are made directly into the supplier's bank account, eliminating the costs associated with processing and posting check payments. The purchasing card reconciliation process also provides suppliers with consistent and accessible remittance information.
- **Ease of use**  
Because EIPP can accommodate multiple invoice types, a supplier is not required to change their existing processes—unless mandated by the buyer. An EIPP solution can handle paper invoice submission by scanning and uploading these into the platform. To streamline the process for high-volume suppliers, EIPP can handle batch uploads. Any supplier that works infrequently with the buyer may elect to simply enter an invoice directly into the EIPP system.

- No cost  
Enrollment in EIPP should be fast, simple, and free to the supplier. Supplier onboarding and support should be facilitated by the EIPP provider, resulting in a supplier base that can actively and efficiently leverage the EIPP network.
- No point of sale (POS) terminal required  
EIPP should automatically process transactions on behalf of the suppliers, eliminating the need for them to purchase POS equipment or provide transaction data. This not only saves the supplier time and money, but also increases the accuracy of transaction data.

## Summary

In today's increasingly competitive environment, companies are seeking ways to cut costs while maintaining controls. EIPP can offer organizations significant benefits as they focus on improving efficiencies within their invoice and payment processes. By electronically processing invoices and facilitating electronic payments, EIPP results in a substantially streamlined process that eliminates the handling of paper invoices, increases the use of electronic payments, and improves controls.

Additional financial, operational, and control advantages are available by combining the use of purchasing cards with electronic invoicing. First, companies that use purchasing cards as a settlement vehicle within an EIPP system can improve the management of working capital, managing DPO and benefiting financially from the increased float. Second, by using pre-approval options, capturing more data, and eliminating the need to exchange card or bank account information, the organization enjoys higher levels of control and security than with traditional purchasing card transactions or electronic invoicing alone. And finally, the ability to pay suppliers faster with a no-cost, easy-to-use EIPP platform helps enhance supplier relationships.

To learn more about the American Express Corporate Purchasing Card or EIPP programs, visit us at [www.americanexpress.com/s2s](http://www.americanexpress.com/s2s).