

10X Tech Stack

Supercharge Your Procure-to-Pay and Order-to-Cash Cycles

Robert A. Kelley, CFA & Jonathan Bein, Ph.D.



Introduction

Technologies that made the cut for our 10X Tech Stack must have a return that is:

- Predictable: Success is the overwhelming norm
- Fast: Distributors can measure the return in weeks or months, not quarters or years
- Material: The return must be 10X or greater versus the cost of the technology

Not included on this list are ERP, ecommerce and CRM systems. Make no mistake – great systems in these areas are table stakes, but they don't necessarily have a measurable ROI. Investing in them is an inherent cost of doing business for a distributor.

Instead, in this whitepaper, we'll look at four technologies that automate the procure-to-pay and order-to-cash cycles:

- Invoicing
- Payments
- Accounts Receivable
- Accounts Payable

From our recent research project at Distribution Strategy Group, "The State of Distributor Technology," more than a third of distributors surveyed are currently deploying advanced payment and invoicing technologies, with approximately 57% of distributors expecting to deploy by 2025.

The Case for Automation

Nearly half of all B2B transactions were still manual in 2020. And 49% of orders that are automated still require some manual intervention. Just 12% of AP/invoice transactions are automated.* It's no surprise then that about 70% of CEOs report that "automating their operations is a very high priority to meet their strategic objectives, mainly because it will make them more competitive." Distributors need to embrace automation of the order-to-cash and procure-to-pay processes as part of their digital transformation. We will discuss some of the common challenges distributors face plus how available technology can close the gap with solutions that:

- Enable manual documents to be handled automatically without human intervention while maintaining highly accurate (essentially 100%) information
- Provide flexible customization with powerful business rules that can handle exceptions throughout workflows without requiring human interaction
- Handle complex and variable documents easily
- Don't require customers or suppliers to change their business processes
- Maintain high levels of customer experience without shifting the burden to IT

The Automation Imperative

From	To
High costs	Cost savings
Lagging process times	Short time to cash
Low productivity	Efficiency to scale
Too many errors	Accuracy
Too much IT and systems complexity	Detailed information and analysis
Lack of visibility, poor planning and forecasting	Increased customer satisfaction
Disgruntled customers and suppliers	Improve supplier relationships
Lack of coordination and collaboration	
Siloed departments	

**Sources: Economist Intelligence Unit, DigitalCommerce360, Billentis*

The administrative processes required to manage paperwork for the procure-to-pay and order-to-cash stages of the customer journey is labor-intensive, time-consuming and error-prone. A better way to manage financial processes is to integrate technology solutions that automate them.

For example, technology that integrates smart business rules to handle common exceptions such as allowing small variances in quotes, POs and payments within defined thresholds eliminates the need for humans to review and approve minor exceptions and greatly simplifies reconciliations. This frees resources that can be dedicated to more important and valuable tasks, resulting in increased sales, customer satisfaction and profitability.

In some cases, distributors have used technologies such as EDI for electronic transactions – but only with their largest customers. But most customers do not have the capability and scale requirements to justify EDI implementations. Consequently, distributors need alternatives.

Because of the number of steps and people typically involved, your potential return on automating procure-to-pay and order-to-cash processes with the right technologies is up to 10X your investment. Individually each of these solutions can have a 100 to 300 basis-point impact on EBITDA, and each additional dollar of profit yields a significant multiple in enterprise value for your company.

Chart 1: Opportunities for Automation

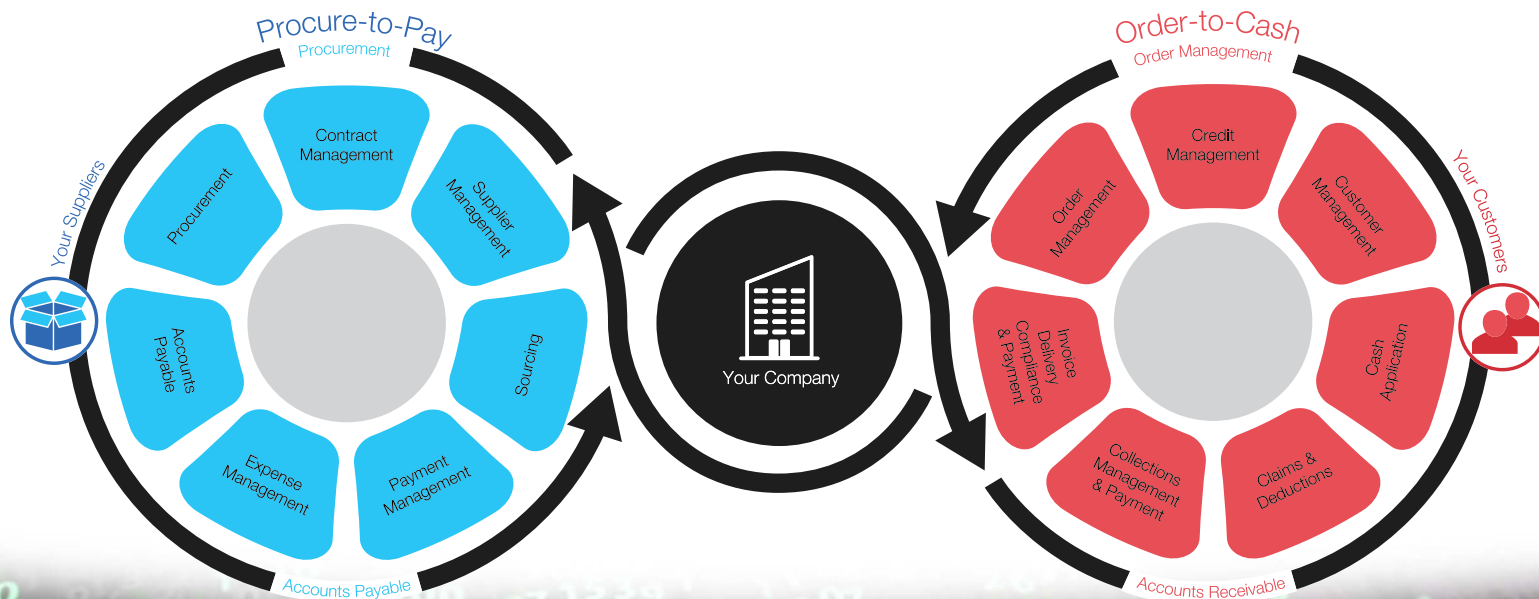
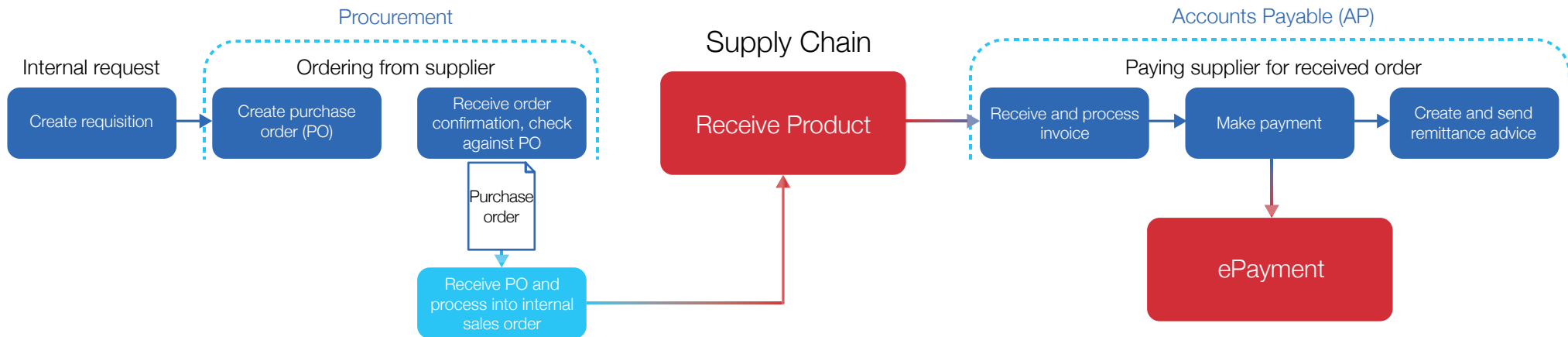


Chart 2: Procurement to AP



Automated Invoicing

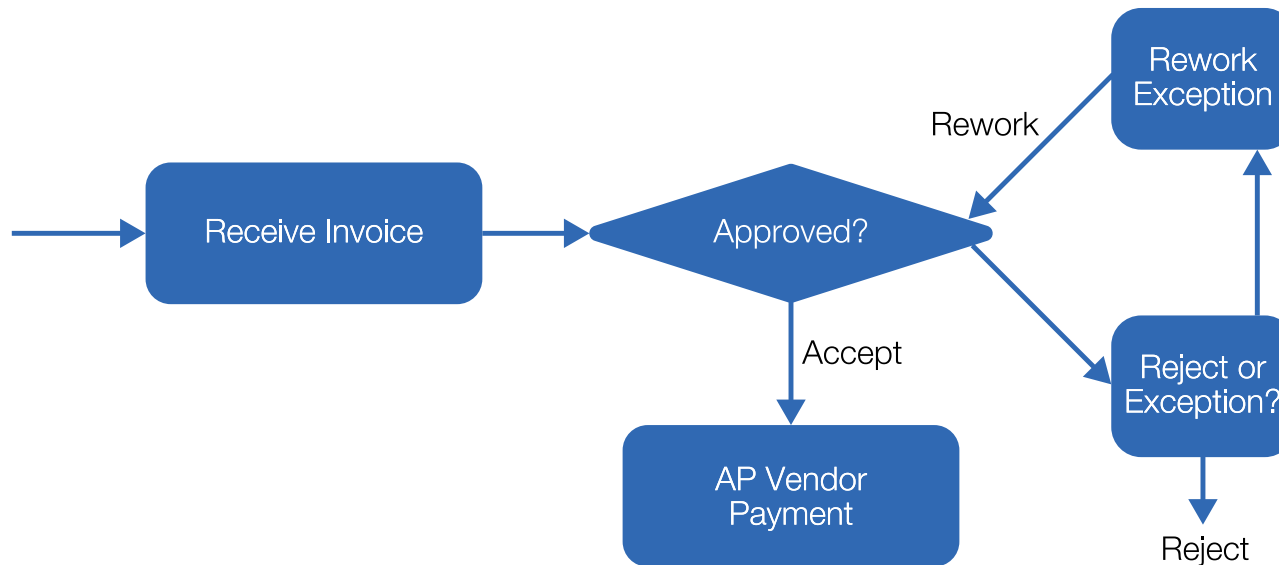
Invoicing is often plagued with excessive paperwork and process delays. This is caused by the need for finance, accounting and operational systems of multiple organizations to work together.

Nearly half of invoices are still paper. The costs of inefficiencies in invoicing include:

- Cost to process invoice: \$10-\$12+
- Time to process invoice: \$10+
- Invoices requiring exception handling: 25%+
- Errors and rework
- Low productivity
- Time delays

New technologies promise significant improvements in capabilities, productivity and accuracy in this stage of the customer journey. An automated invoicing solution manages the invoicing process from invoice creation to payment reconciliation. Most orders are submitted using email and fax. So, simple tools that can integrate with existing purchase order and invoice systems are most effective.

Chart 3: Invoice Processing Workflow



Benefits

Automation increases "straight-through" processing of invoices by 3.2X. Other benefits include:

- Reduces operating costs by 82%
- Decreases processing and approval time by 72%
- Fewer errors and exceptions
- Greater visibility into transaction status
- Reclaim up to 50% FTE per CSR per year to grow revenue without growing headcount
- Creates new revenue opportunities

Case study

Recent market dynamics have created an imperative to provide a touchless and paperless environment for payments and other customer interactions. This is only possible with new automation technologies for invoicing and payments that use electronic documents and intelligent processing workflows.

An industrial distributor had hundreds of thousands of orders come in through email per year at a cost of \$4.50/order. This company implemented sales order and AP automation solutions with Conexiom. The result: They were able to process 95% of their orders in under 2 minutes, with 83% of orders being touchless. The cost per order fell to \$0.96, and the automation eliminated \$3.2 million in manual processing costs.

Automated Accounts Payable

More than likely, you're paying most of your suppliers by check, which is inefficient, costly and difficult to reconcile. The costs of the procurement-to-payment problem can be steep:

- Every AP invoice costs an average of \$10-\$13 to process
- Payments are late 25% of the time, damaging supplier relationships
- As much as 60% of early payment discounts are missed
- 10-30 minutes manual entry per order
- Errors and manual entry drains productivity
- Less time spent servicing and selling

An automated AP solution scans bills and receipts directly to the solution and automates everything from approvals to coding expenses for bookkeeping. It pays vendors for you through check, ACH, virtual card or international wire, and then syncs to your accounting system.

This creates a single workflow for all AP payments, as well as moves you from checks and manual processes to electronic payments to increase efficiency and reduce errors. An automated AP solution also reduces risk associated with using checks; you're also indemnified 100% for the payments made.

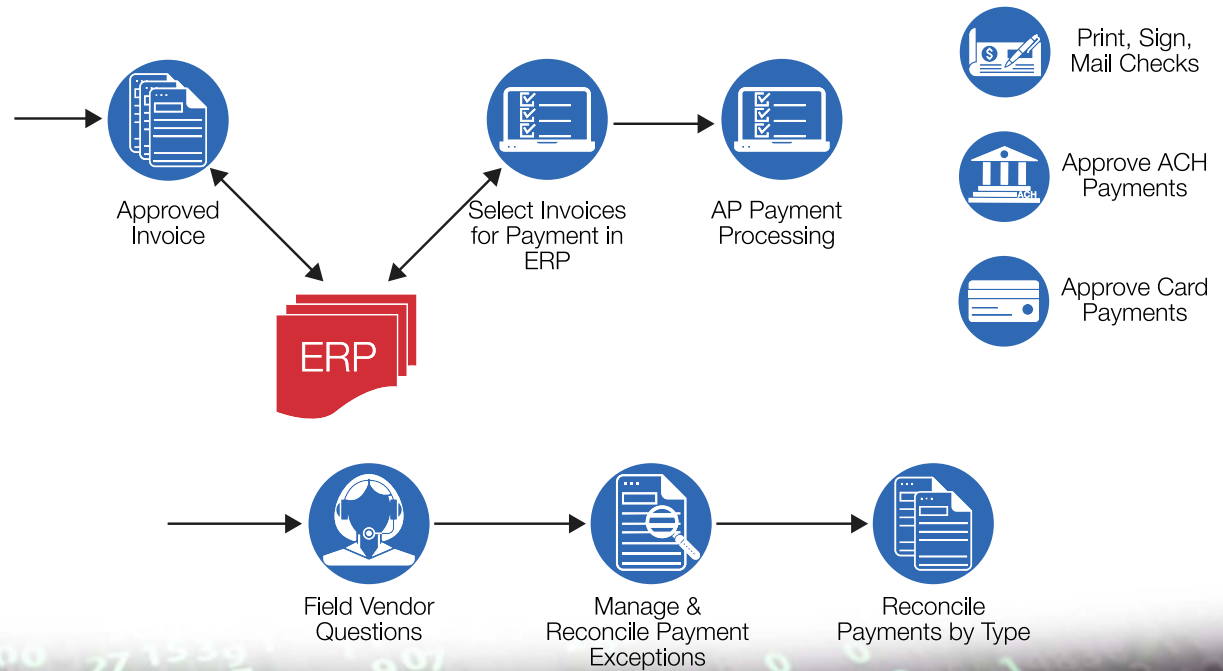
Benefits

Automation improves supplier relationships and increases supply chain transparency. Other benefits include:

- Improves visibility by 4X
- Reduces operating costs by 83%
- Decreases processing time by 74%
- Eliminates errors and rework
- Reduces exceptions by 67%
- Increases early-payment discounts by 61%
- Reduction in fraud

While much of the benefit of AP automation comes from reducing steps and eliminating rework, some of the more compelling financial benefits come from such things as taking advantage of early-payment discounts and special financing or rebates. These savings and additional financial leverage can effectively be used to cover the costs of an AP automation solution.

Chart 4: AP Automation Workflow



Case study

An electrical distributor with \$350 million in annual sales managed a large number of brands and products from suppliers. They selected Conexiom's AP Automation solution, and reduced errors and returns, as well as integrated with ePayments. They were able to reprioritize staff to focus on improving customer service and market share.

Automated Accounts Receivable

From credit management and dispute resolution, to invoicing and reconciliation, the accounts receivable process is complex and ripe for improvement:

- Average cost per order entered manually: \$8.30
- Average cost of human error per order: \$30-\$60
- Amount of time spent re-entering orders with errors: 2-3 hours/day

Manual work around credit reviews, invoicing, reconciliation, dispute handling and more also drains productivity, and gives customer service reps less time to service and sell. It also results in poor working capital utilization. Document automation throughout the order-to-cash cycle greatly simplifies the process while lowering costs significantly.

Accounts receivable automation streamlines systems electronically to reduce repetitive and time-consuming tasks that are prone to error.

Benefits

An automated Accounts Receivable solution improves cash flow by shortening time to revenue. It also improves efficiency and accuracy, while decreasing bad debt and accelerating cash collection. In addition to lowering costs, AR automation greatly improves customer satisfaction by making it easy to do business with you.

Other benefits include:

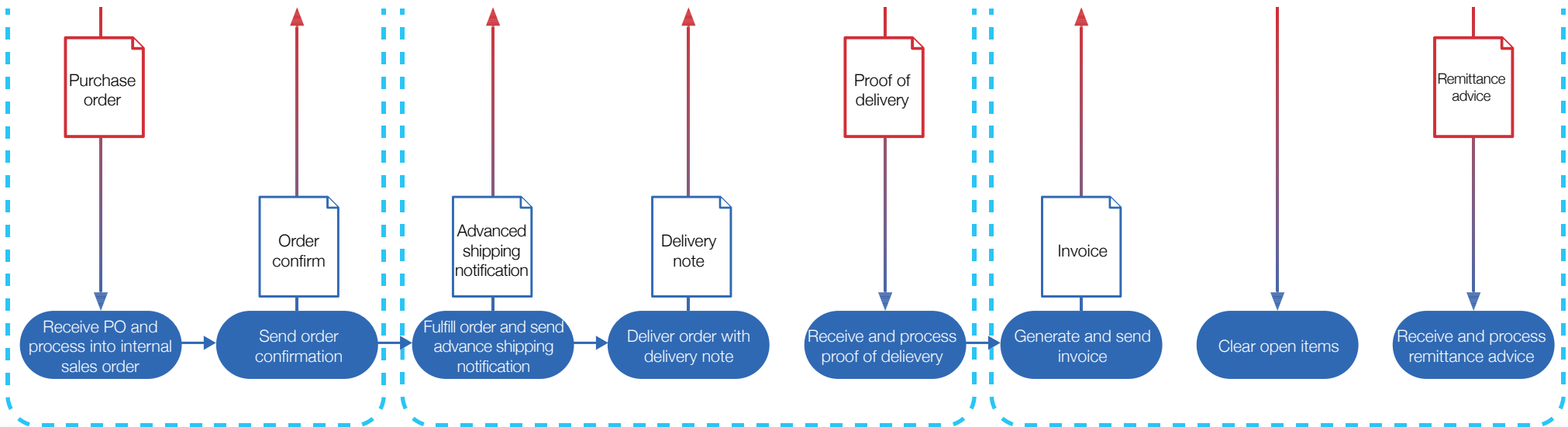
- Reduces Days Sales Outstanding (DSO) by 30% or more
- Reduces costs by 15%-30%
- Reduces collections costs and delays
- Strengthens relationships through better customer experiences
- Frees up resources to focus on customer-facing activities
- Improves working capital

Case study

A \$1.7 billion automotive supplier deployed Corcentric's Managed AR solution for more than 2,000 customers, resulting in a large reduction in Days Sales Outstanding. They also reduced costs associated with invoices and cash application. Another company – in healthcare logistics – automated AR, saving 80 staff days/month, automating 46,000 documents/month, reducing FTE by 50% and reducing DSO.

In addition to major business-process efficiency improvements and cost savings, with specialized solutions vendors such as Corcentric, the AR process can unlock access to strategic financing options where the distributor can access cash immediately by having them take over the AR department responsibilities for resolving any disputes and collecting funds from the end customer instead of requiring the distributor to handle the burden and financial risk.

Chart 5: Order to Cash Cycles



ePayments

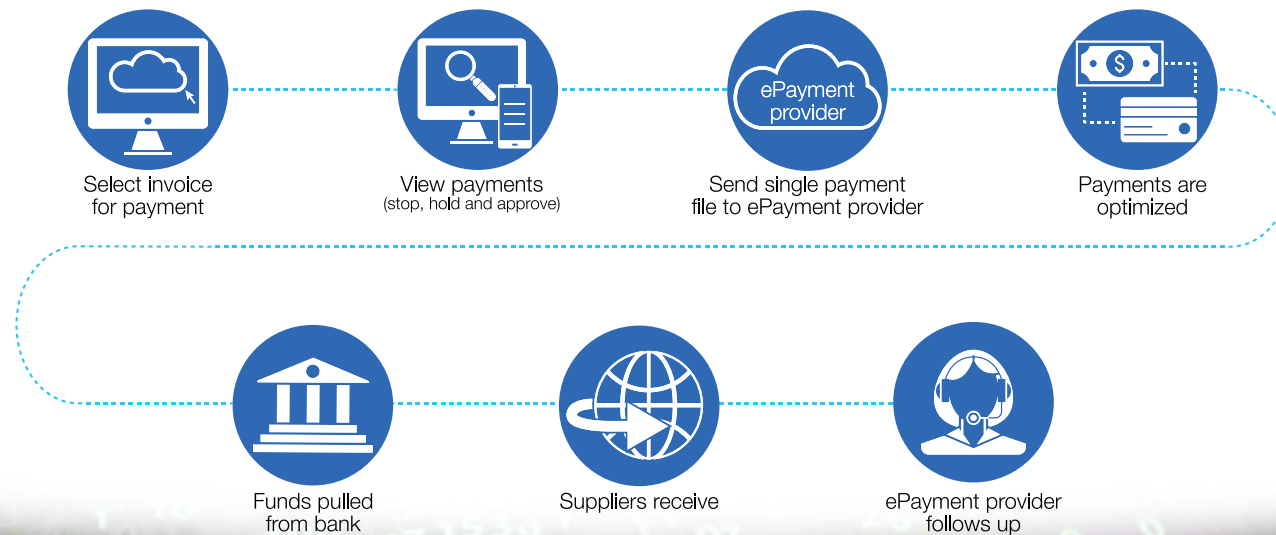
The challenges of managing payments manually include:

- Complexity of many payment types and technologies, including paper checks, credit cards, electronic checks and more
- Cost of paper
- Time-consuming and error-prone processes for reconciliations and accounting

ePayments eliminates the burden of manual payment disbursements through real-time, automated transfers of payments from your bank into your supplier's designated bank account. Many digital solution partners also offer additional financial capabilities:

- Supplier finance where suppliers are guaranteed prompt payment
- PO finance where purchaser has financial leverage
- AR finance where seller receives prompt payment
 - Includes dispute and collections outsourcing
- Payment rebates where participants share in cost savings
- Payment discounts where prompt payments provide additional savings

Chart 6: How ePayment Works



Benefits

The benefits of ePayments include:

- Increased accuracy and control
- More efficient processing
- Ability to take early-payment discounts
- Improved supplier relationships
- Fraud prevention

Case study

With Corpay's Nvoicepay Electronic Payment Automation, an automotive supplier saved \$6 million a year and gained \$15 million a year in rebates. Another supplier with 20,000 purchases a year enrolled 570 vendors in payment automation, eliminated 52+ AP hours of manual entry a week. They replaced paper checks with electronic and eliminated processing errors. They yielded \$44,000 in rebates in the first year.

It is important to note that electronic payment solutions not only simplify making payments and lower operational costs. They can dramatically improve relationships with suppliers. They can also unlock additional sources of income and cash for the distributor through rebates and hard cost savings by eliminating paper checks and check processing.

Next Steps

Distributors are ripe for a major transformation by leveraging new technologies that automate financial transactions, eliminate paper and leverage financial resources. Learn more about the technology highlighted in this whitepaper by visiting our sponsors' websites:



Corcentric.com



Conexiom.com

OUR BRANDS ARE CHANGING



Corpayone.com

DISTRIBUTION STRATEGY **GROUP**

About Distribution Strategy Group

Distribution Strategy Group's thought leadership, research and consulting services are led by a team with decades of experience as senior operators in the distribution industry. They have since worked with more than 70 distribution companies to build a solid foundation to win in today's changing market.

Distribution Strategy Group offers strategic guidance for distributors in the face of disruption, including:

- Digital and ecommerce strategy
- Customer lifecycle management strategy
- Customer analytics
- Sales channel strategy

Contact us:

distributionstrategy.com | 303-898-8626 | contact@distributionstrategy.com