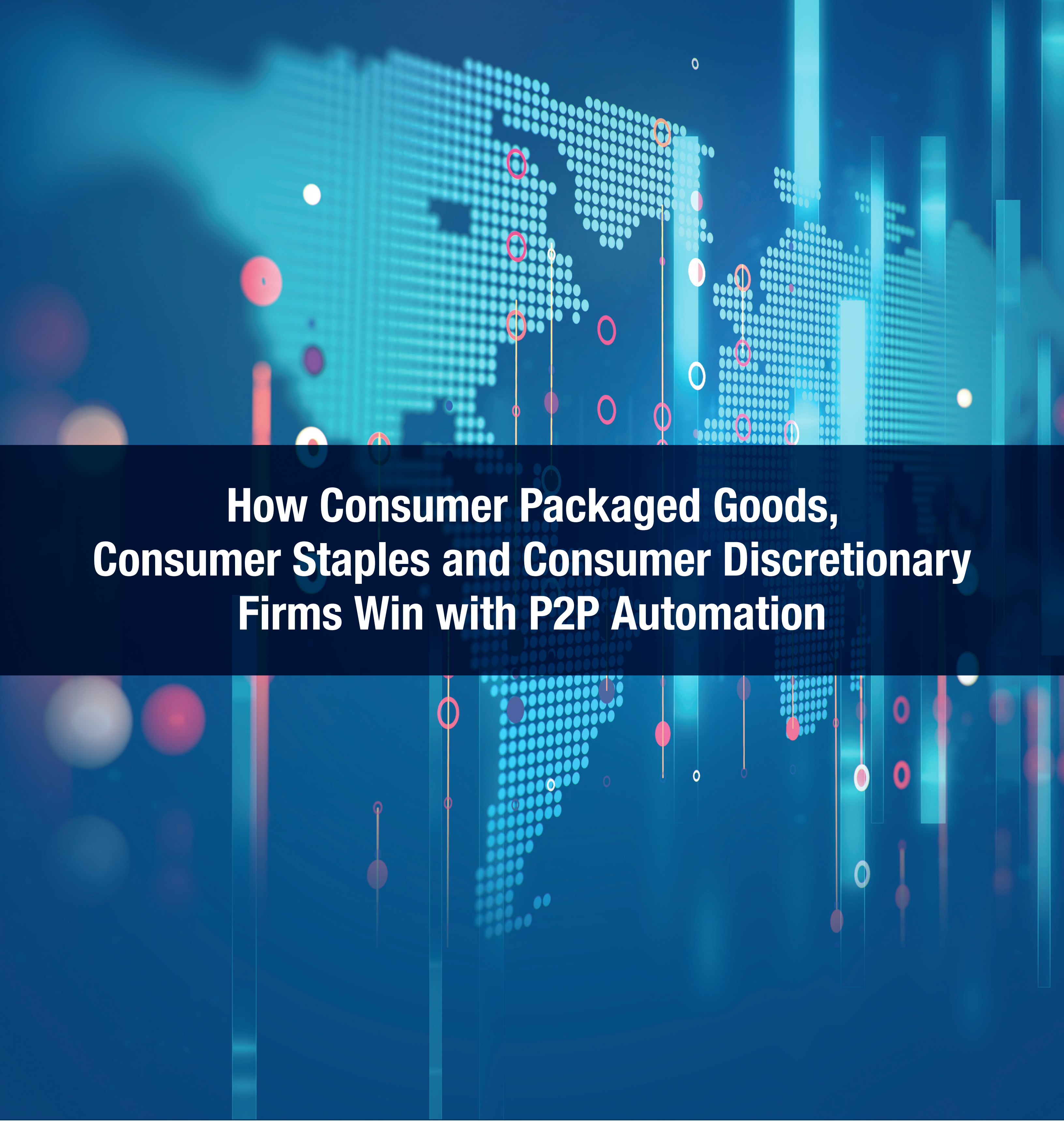

How Consumer Packaged Goods, Consumer Staples and Consumer Discretionary Firms Win with P2P Automation

An AP & P2P white paper

ACCOUNTS PAYABLE & PROCURE-TO-PAY
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Consumer packaged goods, consumer staples and consumer discretionary firms have traditionally viewed the procure-to-pay (P2P) lifecycle as a necessary business expense to be managed in the most efficient way possible. But growing the business and achieving strategic business objectives through P2P automation was not a priority for leadership teams. However, during the past few years, consumer packaged goods, consumer staples and consumer discretionary firms have grasped the potential of P2P to drive working capital optimization. Invoice financing, online collaboration and analytics provide value that goes beyond operational efficiency. This is leading to a fundamental change in what businesses expect from P2P. But how much progress have consumer packaged goods, consumer staples and consumer discretionary firms made in optimizing their working capital through P2P automation? This white paper details the findings of an Institute of Finance and Management (IOFM) and Tungsten Network survey into the P2P challenges faced by firms in this industry, the most important P2P metrics to respondents, and successes in optimizing working capital management.

Eliminating P2P Friction

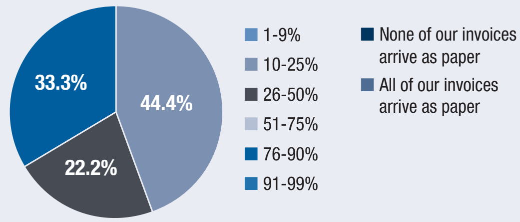
Most accounts payable departments receive most of their invoices from suppliers as paper, per IOFM's most recent accounts payable benchmarking data. That is not the case with consumer packaged goods, consumer staples and consumer discretionary firms. Only one-third of survey respondents receive most of their supplier invoices as paper. Two-thirds of survey respondents receive between 10 percent and 50 percent of their supplier invoices as paper, with 44.4 percent of respondents receiving between 10 percent and 25 percent of their supplier invoices as paper.

A lot of paper invoices are being replaced by invoices sent as a file such as a spreadsheet data upload of a PDF e-mail attachment. Electronic invoicing solutions and other technologies can post these files straight-through, with no operator intervention. Twenty-two percent of survey respondents receive most of their invoices from suppliers as a file such as a spreadsheet data upload or a PDF attachment. Two-thirds of survey respondents receive two-thirds of their supplier invoices as a file.

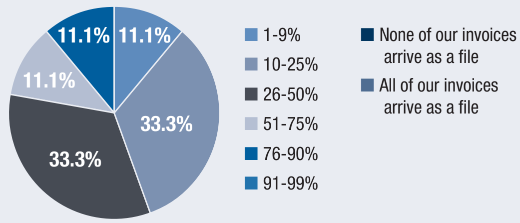
Consumer packaged goods, consumer staples and consumer discretionary firms will never optimize their working capital without eliminating the friction caused by paper invoice processing, errors and exceptions, long cycle times, poor visibility, and weak collaboration from their P2P cycle.

Our survey findings suggest that P2P friction remains a significant challenge for firms in this space. Consider the amount of money that respondents are spending to process paper invoices. Three-quarters of respondents report that it costs their accounts payable department more than $3 to process a paper invoice. It costs world-class accounts payable organizations approximately $3 to process a paper invoice, per The Hackett Group.

What percentage of the invoices that your accounts payable department processes annually is paper-based?



What percentage of the invoices that your accounts payable department processes arrive as a file?
(e.g. Excel data upload, PDF, etc.)



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Worse, processing paper invoices costs 25 percent of the survey respondents between $6 and $9, while another 25 percent of respondents spend between $9 and $12 to process a paper invoice.

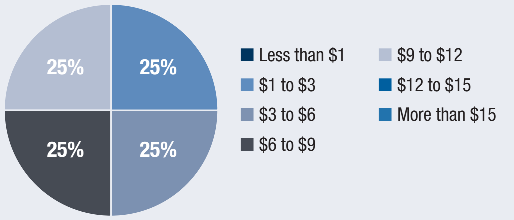
Illustrating the dramatic cost savings organizations that can be achieved by migrating to electronic invoicing, 37.5 percent of survey respondents reported that it costs their accounts payable department less than $3 to process an electronic invoice. Another 37.5 percent of survey respondents stated that it costs their accounts payable department between $3 and $6 to process an electronic invoice.

The high cost of processing paper invoices can be attributed to the fact that survey respondents are manually handling most of the paper invoices they receive from suppliers. Without automation, accounts payable departments must manually key header and line-item information from paper invoices, validate paper invoices against data in an enterprise resource planning (ERP) or general ledger (GL) system, match invoices against a purchase order and/or a delivery receipt, determine the purchaser if no purchase order exists, physically route paper invoices for approval and exceptions resolution, and input information on approved invoices into an ERP or GL system for payment. Only 14.3 percent of the survey respondents post most of the paper invoices they receive straight-through (received, processed and posted to a system-of-record with no operator intervention). Nearly three-quarters of the survey respondents do not post any of the paper invoices they receive straight-through, with no operator intervention. Some 14.3 percent of survey respondents post between 16 percent and 25 percent of their invoices straight-through.

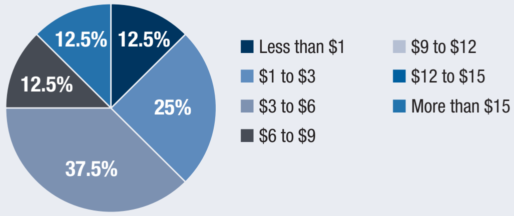
Electronic invoices require less manual processing on the part of firms in this space. But most respondents are manually processing most of the electronic invoices that they receive. Only 14.3 percent of respondents process most of the electronic invoices they receive straight-through, with no operator intervention. Fifty-seven percent of respondents do not process any of the electronic invoices they receive straight-through. Some 14.3 percent of survey respondents process between 16 percent and 25 percent of the electronic invoices they receive straight-through, with no operator intervention, while another 14.3 percent of respondents process between 1 percent and 15 percent of the electronic invoices they receive straight-through.

Eliminating P2P friction is a top priority of survey respondents. One-quarter of survey respondents cited duplicate and erroneous payments to suppliers as their most important accounts payable metric. Similarly, the percentage of invoices processed straight-through, with no operator intervention, cost-per-invoice, percentage of invoices paid on time, invoice cycle times and backlog, the volume and value of invoices processed are other important metrics to survey respondents.

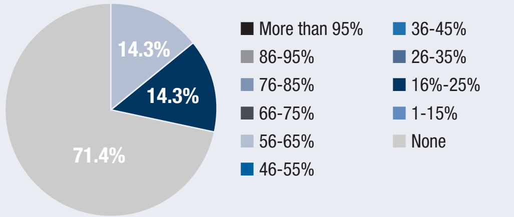
What is your average cost to process a paper invoice?
(including any costs for mailroom, couriers, scanning, indexing, archival)



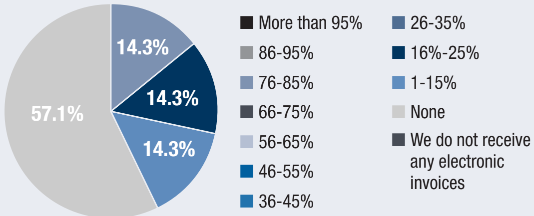
What is your average cost to process an electronic invoice?
(i.e. invoice that arrives via Electronic Invoicing, Electronic Invoicing Network, Supplier Self-Service Portal – no image, e-mail or fax)



What percentage of your paper invoices are approved and posted straight through?
(with no human operator intervention)



What percentage of your electronic invoices are approved and posted straight through?
(with no human operator intervention)

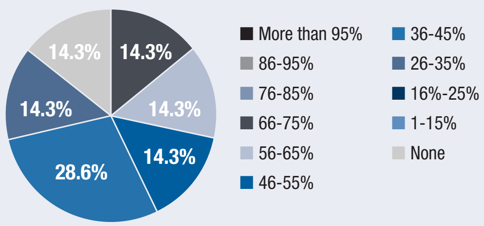


Tying invoices to purchase orders is one method that consumer packaged goods, consumer staples and consumer discretionary firms can boost the number of invoices that they process straight-through, with no operator intervention. Matching invoice information with purchase orders eliminates the need to bounce from system-to-system or to track down purchasers to validate invoice header and line-item information such as price, quantity and due date. Most respondents stated that most of their invoices are based on a purchase order. Eighty-five percent of respondents reported that between 26 percent and 75 percent of the invoices they receive from suppliers are tied to a purchase order. One-quarter of respondents stated that most of the invoices they receive are tied to a purchase order.

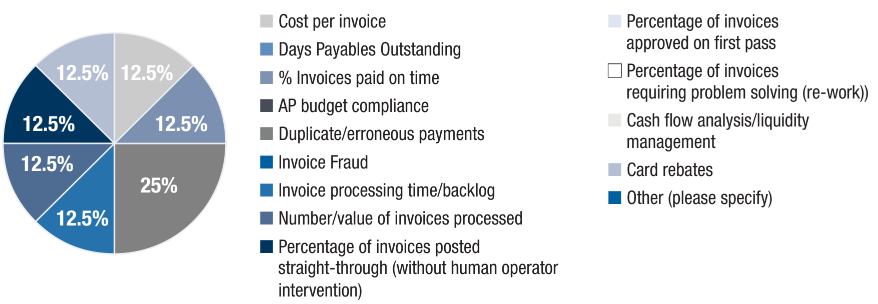
Some 14.3 percent of respondents said their firm has instituted a “no PO, no payment” policy.

Conversely, 14.3 percent of respondents said that none of their invoices are tied to purchase orders.

What percentage of your invoices are PO backed?



Which of the following is the most important metric to your AP department?



The Need for Speed

Considering the small percentage of paper invoices that survey respondents post straight-through, it is no surprise that invoice approval cycle times and exceptions resolution are the biggest accounts payable challenges identified by firms in this space. Slow invoice approvals and delays caused by invoice exceptions frequently result in late payment penalties, missed opportunities for early payment discounts, lots of supplier inquiries, and strained supplier relationships. Duplicate payments, supplier inquiries, and ensuring regulatory compliance were the other top accounts payable challenges cited by survey respondents.

Processing paper invoices is a time-consuming task, without automation. Eight-five percent of the consumer packaged goods, consumer staples and consumer discretionary firms that responded to the survey reported that it takes their accounts payable department an average of more than 5 days to process a paper invoice.

How Consumer Packaged Goods, Consumer Staples and Consumer Discretionary Firms Win with P2P Automation

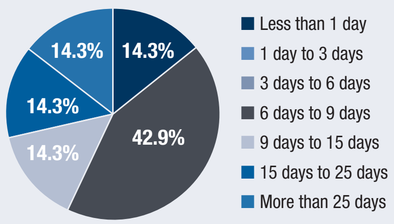
While 42.9 percent of survey respondents said their average time to process a paper invoice stands between 6 days and 9 days, some 14.3 percent of survey respondents stated that it takes their accounts payable department an average of between 9 days and 15 days to process a paper invoice and 14.3 percent of survey respondents reported that it takes their accounts payable department an average of between 15 days and 25 days to process a paper invoice. Incredibly, processing a paper invoice takes an average of more than 25 days for 14.3 percent of survey respondents – closing the door on most opportunities to capture lucrative early payment discounts.

Only 14.3 percent of firms responding to the survey require less than a day to process paper invoices.

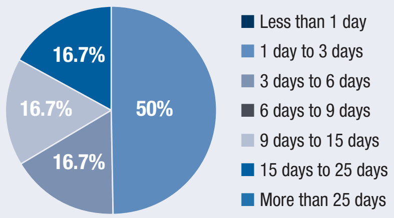
Compared to paper invoices, it takes significantly less time for consumer packaged goods, consumer staples and consumer discretionary firms to process invoices received electronically from suppliers. Processing invoices electronically automates the receipt and validation of invoices, the extraction of header and line-item information, the matching of invoices with purchase orders and/or proof-of-delivery documents, the routing and tracking of invoices for approvals and exceptions handling, and the posting of data on approved invoices to an ERP or GL system. Half the survey respondents reported that it takes their accounts payable department an average of between 1 day and 3 days to process an electronic invoice. Processing electronic invoices takes an average of between 3 days and 6 days for 16.7 percent of survey respondents. Only one-third of respondents report that it takes their accounts payable department an average of more than 6 days for their accounts payable department to process electronic invoices, presumably without the benefit of an electronic invoicing solution.

Senior management recognizes the negative impact that slow invoice approval cycles have on an organization's ability to maximize its working capital. Survey respondents identified the volume and value of invoices processed are the most important accounts payable metrics to senior management. Similarly, the percentage of invoices paid on-time, the percentage of invoices that require re-work (which typically impacts cycle times), and the number of missed early payment discounts are other accounts payable metrics that survey respondents cited as being important to senior management.

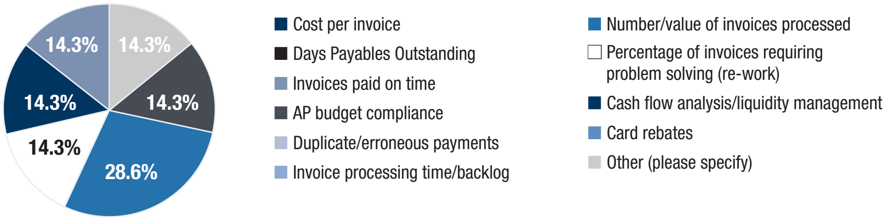
What is your average cycle time for paper invoices?
(from receipt of invoice to approval for payment)



What is your average cycle time for electronic invoices?
(from receipt of invoice to approval for payment)



Which of the following is most important to your senior management?



Working Capital Optimization

One way that consumer packaged goods, consumer staples and consumer discretionary firms are optimizing their working capital is through extended payment terms. Some 42.9 percent of survey respondents said their firm's average payment terms are between 31 days and 50 days, while 28.6 percent of the respondents said their firm's average payments are between 15 days and 30 days. Two years ago, only 28.6 percent of the firms that responded to the survey had payment terms between 31 days and 50 days, while 42.9 percent had payment terms of 15 days to 30 days. Extending payment terms enables businesses to hang onto their case longer, potentially reducing borrowing costs.

Suppliers to consumer packaged goods, consumer staples and consumer discretionary firms can find comfort in the fact that none of the firms that responded plans to extend its payment terms in the next 18 months.

Another way that the consumer packaged goods, consumer staples and consumer discretionary firms that responded to the survey are optimizing their working capital is through the capture of early payment discounts. Some suppliers are willing to exchange a discount on the amount due on an invoice for early payment; the sooner the payment, the larger the discount a supplier will offer.

Businesses that take advantage of just a discount term of 1/10 net 30 earn an annualized 18 percent return – a lot more than they can earn from a typical interest-bearing bank account.

Early payment discount offers are prevalent in the consumer packaged goods, consumer staples and consumer discretionary space. One-third of the survey respondents reported that between 40 percent and 59 percent of the invoices they receive from suppliers include an early payment discount offer. Some 16.7 percent of survey respondents said that between 20 percent and 39 percent of the invoices they receive from suppliers include an early payment offer, and half of the respondents said that 10 percent to 19 percent of the supplier invoices they receive include an early payment discount offer.

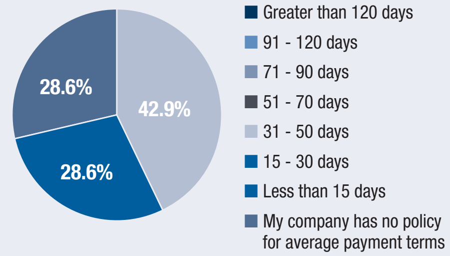
Two-thirds of the survey respondents said they capture at least 60 percent of all early payment discount offers, with 16.7 percent of the respondent capturing more than 95 percent of all offers.

Only one-third of the survey respondents currently do not capture early payment discounts.

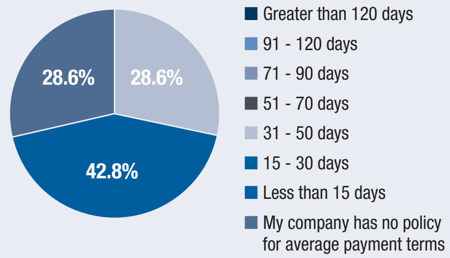
Capturing early payment discounts is having a big impact on survey respondents' cost-of-goods.

Two-thirds of the consumer packaged goods, consumer staples and consumer discretionary firms that responded to the survey are capturing average early payment discounts of 6 percent or more.

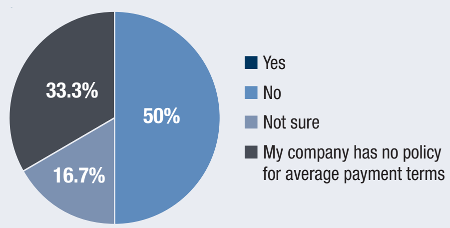
What is your company's policy for average payment terms?



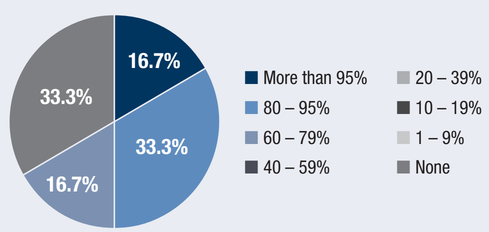
2 years ago, what was your company's policy for average payment terms?



Does your company plan to extend its payment terms within the next 18 months?



What percentage of early payment discount offers does your company currently capture?



Some 16.7 percent of respondents stated that they currently capture average early payment discounts of 6 percent, while one-third of the respondents said they capture average early payment discounts of 8 percent and 16.7 percent said they capture average early payment discounts of more than 9 percent.

Interestingly, none of the consumer packaged goods, consumer staples and consumer discretionary firms have technology for making early payment discount offers to suppliers (dynamic discounting), and only 14.3 percent of survey respondents have supply chain financing technology (factoring).

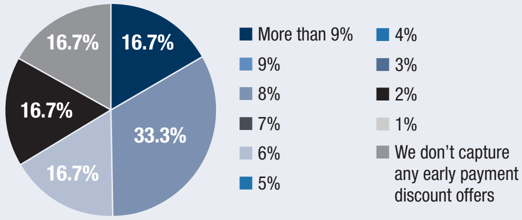
Next Steps

Making greater use of electronic invoicing would go a long way towards helping consumer packaged goods, consumer staples and consumer discretionary firms achieve their working capital objectives. Electronic invoicing eliminates friction in the P2P cycle by automating the receipt and validation of invoices, extracting header and line-item information from invoices, routing invoices for approval and exceptions handling, enabling online collaboration between internal stakeholders and suppliers, seamlessly posting information on approved invoices to an ERP or GL system, providing analytics on operational, financial and spend data, and facilitating invoicing financing.

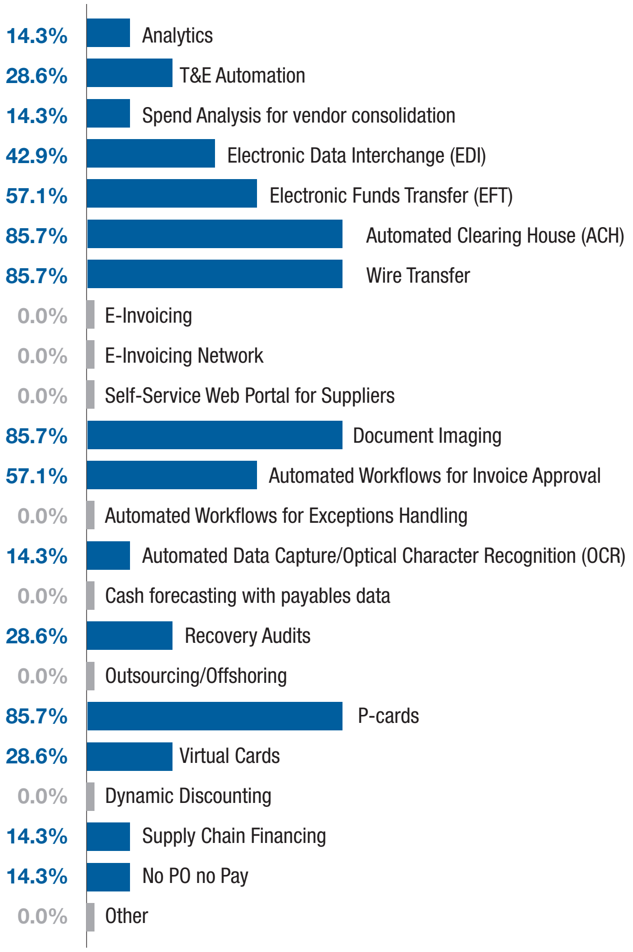
Unfortunately, none of the respondents to the survey currently use electronic invoicing technology.

Consumer packaged goods, consumer staples and consumer discretionary firms are leaning hard on document imaging and invoice approval workflows to process supplier invoices. The problem is that compared to electronic invoicing, document imaging and invoice approval workflows cannot validate invoices at the point of submission (before they are handled by accounts payable staff), cost more, take longer, result in more exceptions and duplicate payments, typically do not provide suppliers with visibility into the status of invoices and payments, and do not support regional tax reporting regulations.

Rounding off to the nearest whole number, which of the following represents the average early payment discount that your company currently captures?



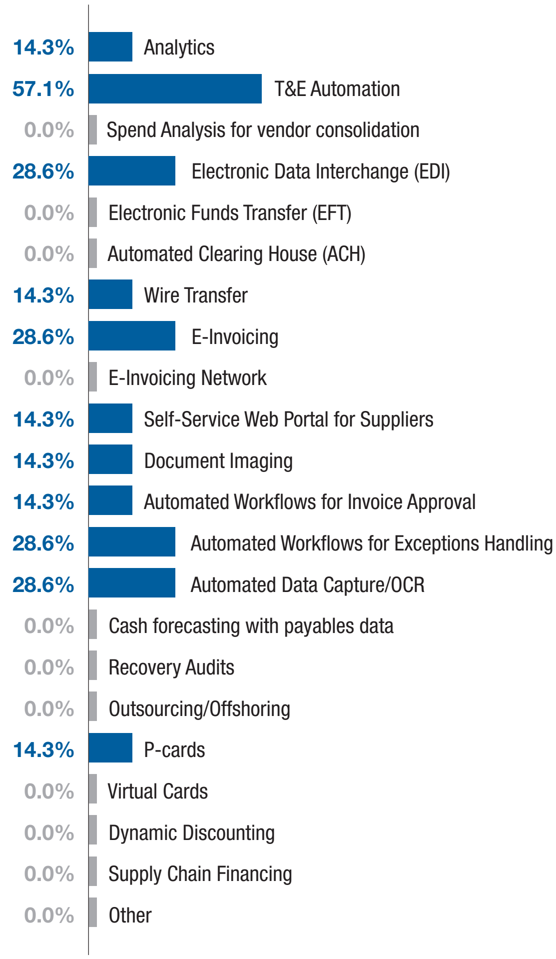
Which of the following does your organization currently use?



Other P2P technologies used by survey respondents include automated data capture of invoice header and line-item information, spend analysis, spend analysis for supplier consolidation, and analytics.

However, consumer packaged goods, consumer staples and consumer discretionary firms are prioritizing technologies that streamline invoice processing. Electronic invoicing, electronic data interchange (EDI), automated workflows for invoice approvals and exceptions handling, document imaging and technologies for extracting header and line-item data from invoices are among the top automation priorities of respondents. Analytics – which delivers personalized, real-time insights into operational, financial and spend information – also is a technology that respondents plan to deploy.

Which of the following are among the top automation priorities for your organization in 2017?



One-third of respondents believe that the biggest benefits of electronic invoicing are faster invoice approval cycle times and fewer supplier inquiries. Less risk of payment fraud and the ability to capture early payment discounts were other benefits cited by current users of the technology.

Conclusion

Consumer packaged goods, consumer staples and consumer discretionary firms increasingly recognize the potential of P2P improvements to drive working capital optimization. The findings of this survey suggest that while respondents have made progress in some areas of P2P automation, a lot of work remains to be done. Embracing electronic invoicing and other technologies for posting invoices straight-through, with no operator intervention, will help consumer packaged goods, consumer staples and consumer discretionary firms optimize their working capital and position themselves to win against competitors, no matter the business conditions.

About the Survey Respondents

IOFM conducted an online survey of accounts payable and P2P practitioners in the consumer-packaged goods, consumer staples and consumer discretionary space in spring 2017.

Forty-four percent of the consumer packaged goods, consumer staples and consumer discretionary firms that responded to the survey process between 250,001 invoices and 500,000 invoices annually. One-third of the survey respondents process between 50,001 invoices and 100,000 invoices annually, while 11.1 percent process between 100,001 invoices and 250,000 invoices annually. Conversely, 11.1 percent of the respondents process between 1,000,001 invoices and 1,500,000 invoices per year.

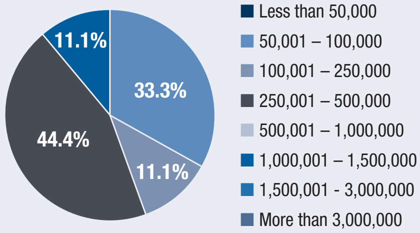
All of the survey respondents are based in the United States and Canada.

More than three-quarters of the survey respondents stated that their accounts payable department operates as a centralized, separate department or as part of a regional, multi-regional or global shared services center. Centralizing accounts payable or operating it as a part of a shared services center enables organizations to achieve economies of scale, consolidate systems, enhance visibility across the P2P lifecycle, and potentially establish centers of excellence for accounts payable.

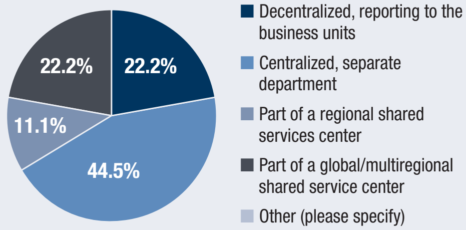
Some 12.5 percent of the consumer packaged goods, consumer staples and consumer discretionary firms that responded to the survey described their shared services model as being "mature."

None of the survey respondents said their P2P function is currently outsourced.

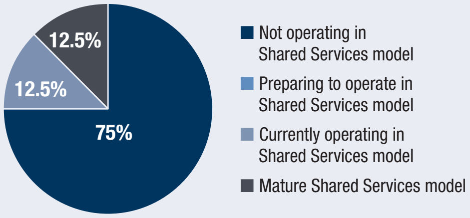
How many invoices are processed by your organization's accounts payable department each year?



Which of the following best describes your AP organization?



Is your AP organization currently operating in a Shared Services model?



About Tungsten Network

Our vision is to be the world's most trusted business transaction network by using data intelligently to strengthen the global supply chain.

Tungsten Network is a secure e-invoicing, purchase order services and workflow platform that brings businesses and their Suppliers closer together with unique technology that revolutionises invoice processing, maximises efficiency and improves cash flow management. Delivering trusted connections and streamlined transactions, the network also provides users with real-time spend analysis and offers Suppliers access to invoice financing through Tungsten Network Finance, a form of alternative finance for businesses.

Tungsten Network processes invoices for 76% of the FTSE 100 and 66% of the Fortune 500. It enables Suppliers to submit tax compliant e-invoices in 48 countries, and last year processed transactions worth over £155bn for organisations such as Alliance Data, Cargill, Deutsche Lufthansa, General Motors, GlaxoSmithKline, Mondelēz International, Henkel, IBM, Kellogg's and the US Federal Government.

Trusted, passionate and proven, Tungsten is making the digitisation of global commerce between Buyers and Suppliers faster, easier and smarter.

About the AP & P2P Network

The AP & P2P Network is the leading provider of training, education and certification programs specifically for Accounts Payable, Procure-to-Pay, Global and Shared Services professionals as well as Controllers and their F&A teams.

Membership to the AP & P2P Network (**www.app2p.com**) provides comprehensive tools and resources to financial operations professionals who manage or are deeply involved in the Accounts Payable and Procure-to-Pay process.

Focus areas include best practices for every AP & P2P function; AP & P2P metrics and benchmarking data; tax and regulatory compliance (e.g. 1099, 1042-S, W-9, W-8, Sales & Use Tax, Escheatment, VAT, Canadian Tax, Internal Controls); solutions to real-world problems challenging your department; AP & P2P automation case studies; member Q&A networking forums, Ask the Experts, calculators, and more than 300 downloadable, customizable AP & P2P policies, flowcharts, templates and internal control checklists.

A membership to the AP & P2P Network provides tangible ROI to any organization – saving your organization time, money and keeping you compliant.

Over 10,000 professionals have been certified as an Accredited Payables Specialist or Manager (available in English, Simple Chinese and Spanish), and Certified Professional Controller through the AP & P2P Network and its parent company, the Institute of Finance & Management.

AP & P2P Network also hosts the Accounts Payable and Procure-to-Pay Conference and Expo (Spring and Fall), designed to facilitate education and peer networking.

The AP & P2P Network is produced by the Institute of Finance and Management (IOFM), which is the leading organization providing training, education and certification programs specifically for professionals in Accounts Payable, Procure-to-Pay, Accounts Receivable and Order-to-Cash, as well as key tax and compliance resources for Global and Shared Services professionals, Controllers and their F&A teams. With a universe of over 100,000 financial operations professionals, IOFM is the trusted source of information in the rapidly evolving field of financial operations.