

Procure-to-Pay Automation Evolves into Multi-enterprise Collaboration

[Kurt Cavano, TradeCard](#) - 15 Dec 2009

The best way to understand your partners is to 'follow the money' in your procure-to-pay (P2P) process. Innovative companies are using P2P solutions as a foundation to collaborate with their supply chain partners and to eliminate risk.

One good thing that came out of the financial crisis was a wake-up call to all supply chain professionals about 'hidden' supply chain risk. The reality is that the risks were not hidden, but rather just ignored. The near collapse of CIT and the resulting liquidity crunch, the bankruptcy of



a number of retailers and the virtual disappearance of tens of thousands of Chinese factories were the proverbial shots across the bow. It is no longer acceptable to ignore the needs of your upstream and downstream trading partners. They are, after all, your partners. The best way to understand your partners is to 'follow the money' in your procure-to-pay (P2P) process. And when you do, you will not only find the process littered with paper and inefficiencies but broken in many cases.

Today, innovative companies are using P2P solutions to truly collaborate with their supply chain partners and to eliminate various forms of risk: finance and credit related risk; risk related to the strength of trading partners; and risk relating to the financial institutions that finance trade. Today's technology and services provide an opportunity to deploy truly strategic P2P systems and to bulletproof your supply chain.

Risk of Errors

Process and document automation provided by P2P solutions saves a lot of paper. It also reduces manual keying of data and eliminates mistakes. When purchase orders (POs), invoices, PO amendments and settlements all occur in one place, both the buyer and seller benefit from accuracy, efficiency and saving time.

This level of P2P automation is widespread today and many companies both large and small benefit from it. But when the P2P automation occurs on a platform that not only links buyers and sellers but also financial institutions, another level of strategic benefit begins to take shape. Not only can the buyer and seller see transaction data, but also the financial institutions that finance transactions.

Bringing everyone together on a transaction provides visibility and integration regardless whether the trading partners are in Baltimore or Bangladesh. In most cases, it starts with the fundamental element of the transaction - the PO.

Automating processes related to PO management, advanced shipment notices and invoice presentment, electronically matching them to determine approval for payment, and then inserting online financial services, creates efficiency and visibility from PO all the way through settlement and money movement. It also creates a series of opportunities for inserting liquidity and embedding financial services at various stages in the supply chain.

Finance and Credit Related Risk

There has been a surge in credit protection in the last year. Suppliers are purchasing payment protection out of concern for their buyers. Many buyers are extending payment terms, either from 30 days to 45 or from 45 days to 60, to match their cash cycles with the retail side. Unfortunately, this places stress on suppliers who require cash to begin their orders. As a result of the credit crunch, there's been a movement towards early payment programmes, financed by buyers or financial institutions, to get cash into suppliers' hands more quickly. When the P2P process occurs on a platform that includes financial institutions, an opportunity arises for event-based financing. Event-based payments and financing can reduce risk while creating more financing opportunities deeper in the supply chain. Current technology solutions make it possible for buyers and suppliers to deploy a hybrid model for financing that leverages a blend of invoice discounting programmes, pre-export financing and post-export financing. The result is the assurance of liquidity in the supply chain at the lowest cost possible, based on the financing cost of the most credit worthy party in the transaction. At this point, P2P systems begin to enable multi-enterprise collaboration. The financial strength of the strongest party in the supply chain is leveraged to eliminate risk related to the weakest link and ensure that financing and payments reach the appropriate party. This not only creates supply chain savings but also creates a significant opportunity for financial institutions.

Strength of Financial Institutions

P2P automation on a bank-neutral platform not only provides corporate clients with the ability to insert financial services such as export financing into the process, but also allows access to multiple financial providers. In light of the recent troubles at banks such as CIT, the risks of conducting trade financing with just one financial institution have come to the forefront. The main concern today isn't "How big should banks be allowed to get?" The questions to pose are these: "How can we reduce the overall risks related to finance and credit in today's

global environment?” and “How can we offer more options to companies while putting them at less risk?”

We are clearly at a crossroads in banking history. But if we take a look back 50 years to examine past landscape-changing developments, there's a recurring trend in banking that usually leads to empowerment of smaller banks. This shift, ultimately, better serves the end consumer.

Starting with credit cards, it was big banks that offered cards and it was a commonly held belief at the time that you had to be a big bank to offer them.

Over time, technology providers and organisations such as Visa and MasterCard provided resources to enable smaller banks to issue credit cards in their names.

Today, the average American holds four credit cards from a variety of institutions.

Looking back at ATMs, it was Citi and its large investment in ATM networks that set the ball rolling. As time went on and demand grew, technology and network providers evolved that allowed even the smallest banks to leverage ATMs.

Today, there are more than 350,000 ATMs in the US.

The same scenario will play out in global trade banking. A few large banks will try to do it all themselves when it comes to financing global trade, but technology providers will once again link everyone together, to enable the smallest of banks to link their niche services into the global supply chain.

The beauty here is that using P2P technology as the foundation to link together multiple banks and multiple corporations creates a self-healing organism. On a multi-bank system, if one institution fails, another is available to step in to fill its role, ensuring that suppliers can ship, buyers can receive and consumers can get their goods. The supply chain stays intact.

What we've all seen in the recent financial crisis is the effects of too few financial institutions supporting global trade. When someone goes under, everyone suffers. The world is not better off with a handful of large players that are too large to fail. Instead, what is needed is an extensive set of small, nimble institutions that are linked and enabled by technology to adjust to change and service their niches to ensure their customers don't fail.

P2P Automation Becomes Multi-enterprise Collaboration

It takes technology, people and integrated processes to help companies view global transactions holistically. When all transaction data from email, fax and EDI is streamlined into a digital data hub, it enables buyers, suppliers and service providers to have visibility into processes to reduce costs and optimise the entire supply chain.

Connecting everyone into the same transaction process and having automated event flow and management enables companies to act less like separate buyers and sellers, and more like a true network of trading partners. Bringing buyers, suppliers and financial institutions together on a transaction can eliminate risk for all parties. P2P automation becomes much more than a tactical project: it evolves into a strategy for multi-enterprise collaboration that improves margins and cash flow and eliminates trade-related risk.