



# EIPP's Expanding Global Capabilities

Electronic invoice presentment and payment (EIPP) hasn't yet had the impact that some have predicted, but new technologies and programs may make a compelling case for it.

The benefits of electronic invoice presentment and payment (EIPP) have been well documented, and early adopters have achieved significant reductions in days sales outstanding (DSO) — largely due to a more efficient dispute resolution process. Why, then, have corporations around the globe been so slow to adopt EIPP?

Some of the adoption challenges are local and fall into the “general market un-readiness” category that involves bandwidth issues, low Internet usage, low PC penetration, laws requiring the use of paper invoices and even low labor costs, which undercut the value

By Maria Mandler

Cargo Network Services' EIPP exchange, set up by Citibank, consolidates invoices from multiple airlines into one invoice for presentment to each cargo agent, radically reducing the number of invoices and payments required.



proposition of automating manual processes. It's not surprising that EIPP adoption rates would be low in less developed regions. But why have adoption rates failed to meet industry analysts' expectations in Europe and North America as well?

In Europe, the use of direct debits is common, but in the U.S., the national fondness for paying by check — in order to take advantage of mail float — may have contributed to low EIPP adoption rates. However, recent research suggests that paying by check has peaked in the U.S. and the use of ACH debits — as well as EIPP — is growing. In addition, EIPP platforms are accommodating check

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payments, providing users the time they need to fully migrate to electronic debits.

It's possible that industry expectations regarding EIPP adoption, formulated at the height of the dot-com bubble and before the economic environment became more challenging, were simply unrealistic. A 2003 *GTNews Working Capital Survey* reveals that 25 percent of respondents that did not proceed with an EIPP program cited "limited budget and lack of internal sponsorship" as the main reason. It's worth noting that 61 percent of respondents who had not yet embraced EIPP expected to reconsider doing so within the next 12 months.

With collection issues creating serious inefficiencies and working capital management challenges for corporations worldwide, the need for EIPP remains crystal clear. In some regions, such as Latin America, working capital issues are so serious that companies need funding and credit on a daily basis to build and deliver goods, and sales representatives can spend more time disputing invoices with customers rather than selling to them.

DSO averages vary widely from region to region and within regions. For example, in Greece, the average DSO is 80 to 90 days, while in Finland, the average is only 10 to 15 days. Billing and collection methods — as well as payment infrastructures — also vary widely and present unique challenges to treasurers charged with reducing DSO globally.

#### Innovative EIPP Applications Emerge

Despite adoption challenges and wide variances in billing and collection methods, EIPP applications are gaining traction with companies around the globe and are becoming more innovative. The new solutions use the EIPP platform as an engine from which to deliver increased trade and cash capabilities — and even more compelling value propositions — to clients. In addition, a new multiple seller/buyer payment/pre-

sentment model has emerged.

In Eastern Europe, companies are using the EIPP platform with invoice discounting and financing to radically accelerate collections and/or extend payment terms to buyers. Citibank, for instance, issues a "closed loop" credit card to suppliers and buyers, linking various trade instruments and credit lines (specific to that particular supplier/buyer relationship) to the card. Buyers then use this credit card to pay invoices issued by the supplier on the EIPP system.

Let's take an example where the standard payment terms between Supplier A and Buyer A are 30 days. Supplier A has cash flow issues and needs to receive accounts payables within 20 days. The bank accelerates the supplier's cash flow by discounting the invoices and providing funds early — on day 1 or day 10, for example, and then on day 30 or later, collects from the buyer.

The value proposition of EIPP with invoice discounting and financing allows treasurers to accelerate collections — shortening the cycle from 30 days to 1 day — while extending buyer payment terms. This solution streamlines a typically paper-intensive trade process and offers improved reporting, making it easier to track invoices. Suppliers and buyers also benefit, of course, from the standard EIPP capabilities such as the ability to resolve disputes more quickly online, thereby decreasing operational costs.

#### EIPP with Netting

In Western Europe, EIPP with netting provides a powerful global e-billing solution to a multinational organization seeking to present a single invoice for payment in a single currency to customers. Typically, these customers would submit multiple payments in different currencies from multiple subsidiaries in a region.

Citibank sets up a central collection facility that pools invoices from the company's local subsidiaries and routes them to their customers' local subsidiaries for approval. All of the

subsidiaries approve invoices using the EIPP system or resolve disputes online before approval. When the subsidiaries select "payment," the bank runs the netting cycle, which calculates how much each buyer owes the seller from a global point of view. EIPP then presents a consolidated invoice in a single currency to the regional headquarters of the buyer for payment.

The regional headquarters gains central control, with the ability to see both the total and details for local subsidiaries, while local subsidiaries retain the ability to receive invoices domestically — as separate legal entities — in compliance with local legal and regulatory requirements. EIPP with netting allows subsidiaries to maintain their autonomy while benefiting from the netting cycle, which streamlines the payment process and eliminates foreign exchange (FX) risk.

EIPP with netting reduces the number of required payments, and, like standard EIPP, it provides flexible payment methods that accommodate local requirements — for example, the ability for a customer in Europe to pay via direct debit, and a customer in Japan to pay by cash.

Many companies have subsidiaries that buy and sell to one another and generate a high number of invoices in a mixture of currencies across a broad geographic spread. EIPP with netting enables subsidiaries to send and receive invoices to and from each other and take advantage of online dispute resolution capabilities to resolve issues.

When invoices are approved, the system runs the netting cycle, and every subsidiary gets a net balance of what they owe each other. Companies that use netting for intercompany settlement eliminate inefficiencies caused by handling paper invoices and achieve significant cost savings.

#### The Industry Vertical Exchange: A New Model

In the U.S., an entirely new EIPP model has recently emerged. In the classic seller-centric model, a single supplier invoices multiple buyers. In

the new multiple seller/multiple buyer EIPP model, virtually all the billers in one industry invoice all of the buyers through one EIPP system. With the Citibank EIPP-hosted exchange for Cargo Network Services (a clearinghouse owned by major airlines for billing freight forwarders and cargo agents), 75 airlines invoice 1,500 cargo agents.

Cargo Network Services' EIPP exchange consolidates invoices from multiple airlines into one invoice for presentment to each cargo agent, radically reducing the number of invoices and payments required. The airlines benefit from faster funds availability, enhanced credit monitoring and the elimination of mail costs, while the cargo agents benefit from operational efficiencies resulting from processing one rather than many invoices — electronically.

#### The Future of EIPP

The emerging generation of EIPP solutions holds great promise. Already, EIPP with invoice discounting and financing offers the possibility of reducing DSO from 30 days to 1 day for sellers, and of extending payment terms for buyers. With netting, EIPP becomes a powerful global liquidity management tool that streamlines intercompany invoicing and enables large multinationals to overcome the vagaries of local payment infrastructures and practices when billing geographically dispersed customers.

These solutions, which leverage the EIPP platform to deliver increased capabilities to corporations, will continue to evolve over time, and new solutions will emerge. This suggests clients should embrace EIPP not only for the efficiencies they can gain today, but also for the broad-ranging benefits it will bring them in the future.

Finally, the airline industry's striking 95 percent adoption rate of the Cargo Network Services EIPP exchange on day one suggests that industry exchanges are the way of the future, and that adoption may not always be an issue. In the end, EIPP

may meet the industry's high expectations for adoption, and truly transform business-to-business billing.

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