Electronic Invoicing: What's in it for Suppliers?

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Digital transformation. Finance automation. Going digital. Computers and the Internet have revolutionized the way companies communicate and do business. For the most part, it's the large players, the heavy hitters, those E&P companies that are automating not only their field operations but their office processes to maximize operational efficiencies.

How does finance automation affect suppliers? Suppliers share many of the same challenges as their customers. Maintaining competitiveness, increasing efficiencies, and lowering costs are all important focuses, especially during times of economic volatility. One of the biggest challenges for suppliers, however, is maintaining strong financial health and optimizing cash flow to survive the competitive oilfield services segment.

Unfortunately, 90 days to payment has become a norm in the oil and gas industry while suppliers have to contend with extensive upfront costs including inventory, fuel, vehicle expenses, and labor. Imagine not being able to pay your field staff for three months.

As well, manual processing of paper transactions is a cumbersome, often error-prone process. For suppliers, manually keying information into a system opens the door to errors and costly mistakes that can further delay the approval and payment process.

The first step towards automation for suppliers is electronic invoicing.

The Cost of Doing Business

In oil and gas, buyers often have the power to determine when to pay suppliers. This is highly problematic for suppliers who have reduced cash flow and must contend with many upfront costs. Labor, for instance, is often paid every 14 days while many suppliers wait three months before receiving payment. To be competitive, suppliers need to be ready to go with inventory and prepared to pay transportation costs. Other upfront costs include administration, accounting, and business software.

"Getting paid quickly is not just the cost of capital; it's the cost of doing business," says David Yager, *principal of Canada-based oilfield services management consultancy Yager Management Ltd. Because producers are essentially "drilling wells on credit", Yager says suppliers have no choice but to account for risk of fraud and non-payment when determining their prices.*

With minimal cash flow, suppliers may become dependent on their line of credit or factoring service. Working capital efficiency is important as debt becomes less attractive with rising interest rates. As opposed to debt, cash extracted from working capital doesn't have to be repaid and doesn't add leverage to the balance sheet.

A company's financial strength is determined by many things including its working capital. Investors will evaluate opportunities based on a supplier's Days Sales Outstanding (DSO) and cash conversion cycle (CCC) track record. A company with high DSO may be a poor investment choice since work is being performed mostly on credit and cash flow is minimal. Working capital is the most rapid and controllable source of improved shareholder value. Suppliers can work to reduce their DSO by eliminating wasted time in the invoice processing cycle.

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Faster Processing and Payments

Electronic invoices are not only quick and easy to submit but also extremely cost effective. Research shows that automated accounts receivables processes result in significant cost savings. Companies can save as much as 80 per cent by eliminating the need for postage, labor, materials, and storage.

An electronic invoicing solution brings many benefits ultimately resulting in faster, more consistent on-time payments and a lower DSO for suppliers.

- Suppliers see fewer data entry errors and more on-time payments with electronic invoice templates.
- Electronic invoices are immediately delivered to the appropriate invoice approval staff.
- Accounts receivable teams no longer need to contact customers about the whereabouts of invoices. Electronic invoices are easily tracked online.
- Suppliers save time and money with real-time electronic notifications and communications with customers.
- Dispute notification and resolution is more immediate.
- Reconciling payments against original invoices is easy with a solution that tracks each invoice's progress through the system. Some solutions even ensure automatic reconciliation and validation as invoices are submitted and moved through workflow.

Processing efficiencies provide many incremental cost savings, but the benefits of electronic invoicing extend well beyond each transaction.

Better Forecasting and Improved Relationships

Staying competitive means suppliers require things like access to accurate information as soon as possible, opportunities to optimize working capital, and value-added customer relationships.

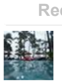
With electronic invoicing solutions, companies see increased data visibility for future profitability and planning. Near real-time access to invoice and payment data allows suppliers to more accurately forecast and optimize cash flow.

Increased customer collaboration and communication facilitate better working relationships, ones in which customers may determine electronic suppliers as their suppliers of choice. With less time focused on pushing paper and following-up on payments, the relationship between buyer and supplier becomes more symbiotic with the shared goal of sustaining business and increasing operational performance.

Determining if Electronic Invoicing is Right for Your Company

Investing in technology, specifically during an economic downturn, can be risky, but choosing the right solution can be worth the risk. Suppliers should measure performance and weigh whether processing efficiencies are worth the boost to their bottom line. Some important metrics to consider include Days Sales Outstanding (DSO), Average Days Delinquent (ADD), and Accounts Receivable Turnover Ratio (ART). They should also consider some of the "soft" benefits. For instance, by reducing manual, labor intensive accounts receivable activities, staff will be much happier. As well, audits are much simpler with online document storage and retrieval.

The majority of buyers have figured out how to implement finance automation to not only lower costs and increase processing efficiencies, but also to leverage transactional information for near real-time spend visibility and cost management. The benefits of going digital have been insurmountable to buyers. Why shouldn't suppliers get a piece of it too?



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