



Case Study #927

Distribution Company

Challenge: To reduce days-sales-outstanding and improve use of capital, all while achieving major cost savings through improved handling of invoicing and payment functions.

This company is a distributor of electrical equipment and supplies, with distribution outlets nationwide that generate close to a million invoices and payment transactions annually, supporting almost \$700 million in sales. Although this company had electronic data interchange with a handful of its largest customers, 90% of the invoices and 100% of the remits were paper-based. Under the old system, this company required a staff of 10 for billing, 15 in A/R, and 10 to handle dispute resolution and collections.

The cost of processing each invoice and payment was escalating rapidly as labor and associated costs increased and additional management oversight was required. Tired of simply throwing additional human resources at the problem, the CFO decided to take a “clean sheet of paper” approach and find a better solution.

Solution: Implementation of electronic invoice presentment and payment (EIPP) through Data Impact.

The company now has a secure, user-friendly, and highly economical online solution that enables their customers to receive and pay invoices electronically, while also providing them with full document management capability.

One of the major elements in this solution was Data Impact’s capability to provide full online access to the documentation behind each invoice (including invoices with electronic signature capture at POS, proof of delivery, and

purchase orders). The distributor not only achieved direct cost savings through a reduction of force in its accounting department, but it was also able to re-deploy several people from its call center as customers opted to answer their own questions online decreasing the volume of routine inquiries.

Each online payment transaction results in an electronic file that is automatically fed to the existing A/R software. This file eliminates manual reconciliation and captures all the information needed to fully reconcile each payment—improving accuracy while reducing expense.

The company has opted for a tiered approach to implementation. They selected a “top tier” group of customers that represented a significant percentage of the invoice volume and mandated their transition to online presentment and payment. In exchange for this, the company provided an incentive in the form of an “online processing discount” in addition to any early payment discount a customer might be entitled to. This resulted in a very high level of acceptance. Other customers are being encouraged to participate, using customer onboarding materials provided by Data Impact.

Benefits

- A reduction of 7 FTEs within the first year, a total that is projected to grow to 20 by the end of Year 3
- A five-day decrease in DSO; improved use of capital
- Lower cost per billing/payment round-trip
- Streamlined reconciliation
- Reduced customer service expenses while providing a higher level of service—many inquiries now “self-serve”
- Improved cash forecasting
- Small upfront investment, and no ongoing software or hardware maintenance costs
- Very quick implementation—no need to wait on the availability of internal IT resources

- Reduced expenses for storage by the elimination of hundreds of thousands of pieces of paper annually
- Reduced expenses for retrieval of documentation to answer customer inquiries

Analysis

The cost of processing a transaction manually, versus doing it electronically, differs by orders of magnitude. Switching to electronic presentation and remittance provides companies a rare opportunity to significantly reduce a major expense by altering and automating the process workflow.

In the case of this distribution company, first-year costs savings were in excess of \$300,000 and are forecast to be \$1.3 million by year 3, when the majority of customers have migrated. In addition to the process cost savings, the CFO calculates that at a cost of capital at 12%, the five-day DSO reduction that has already been accomplished brings an additional \$1.1 million in working capital efficiency gains. The payback period was approximately three months, and the total cost savings for years 1-3 will be approximately \$2.3 million, a 350% ROI.

Data Impact was able to meet and exceed this company's goals by offering a highly integrated, full-spectrum solution that encompassed electronic invoice presentment, electronic payment, and online document management. Because the solution is a Software as a Service (SaaS) offering, it gave this distributor an opportunity to achieve immediate implementation and thus immediate cost savings. They also benefit from having the information housed in a highly secure, fully redundant environment with provisions for disaster recovery.