Disrupted Networks

Research Report

March 2012

basware

Executive Summary

In an economic climate where corporate finance is scrutinized, businesses must ensure they are adopting cost efficient processes across the organization, against a backdrop of increased network interdependencies. Companies recognise the importance of avoiding bottlenecks in the supplier / buyer network and show considerable appetite for adopting platforms which enhance the B2B environments. The key findings from the research are:

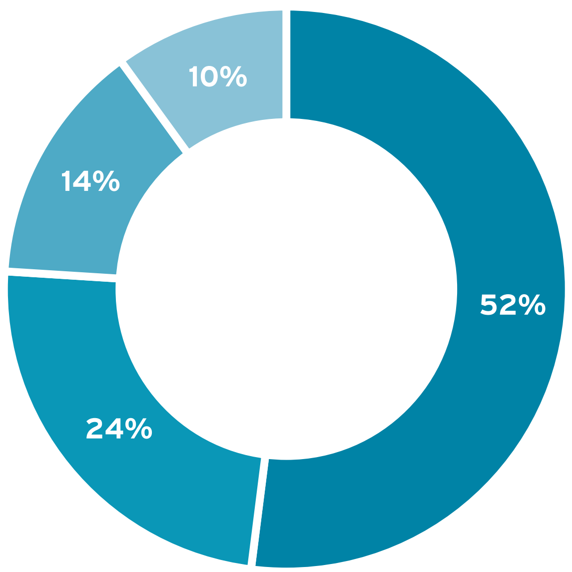
- Businesses believe the supply network is becoming increasingly complex, and as a result connecting disparate parts of the purchase and payment process within their organizations is of critical importance over the course of the next year
- Buyers see suppliers as 'equals': companies acknowledge they are more exposed to tight credit lines
- Respondents acknowledge that late or erroneous payables place pressure on suppliers – however late payment and system errors prevail
- Open and more collaborative networks are considered the most effective method to enhance the B2B environment, however businesses perceive that increased interdependency brings with it higher commercial risk

The Network Effect:

- **69%** believe supply chains are evolving into complex networks of commercial interactions, increasing cost saving challenges
- A further **59%** think visibility of information relating to supply chains and supplier payables are becoming more difficult due to complex supplier environments
- As a result, **62%** claim connecting disparate parts of the purchase and payment process within their business is of critical importance for the next year

Supplier Sensitivity:

- Buyers understand the impact of late or erroneous payables impacts their supplier more than their own organizations. The research shows that suppliers rely more heavily on credit lines in order to operate
- Over two thirds (**69%**) confess that late or erroneous payments is a problem for their suppliers



Research Methodology

The Basware Cost of Control research features insight from 550 FD and CFO level respondents, across USA (100 interviews), UK (100), Nordics (100), Germany (100), Australia (50), Benelux (50) and France (50). Respondents had a minimum of 1000 employees and were screened for decision making responsibility and budget management on behalf of the entire organization. Respondents were screened via telephone and participated in an online survey.

- 1,000-10,000 employees **52%**
- 10,001-20,000 employees **24%**
- 20,001-50,000 employees **14%**
- more than 50,000 employees **10%**

The research examines CFO's challenges with current supply networks, how these are evolving and the potential barriers for both buyers and suppliers as they look to fully integrate payment processes.

Network Collaboration:

- **64%** believe open and collaborative supplier networks provide a more effective basis for sustainable cost savings than closed or exclusive network environments
- However, **57%** think increases in systems interdependency between suppliers, partners and customers creates commercial risks for buyer organizations
- Shared information networks (**56%**) and e-commerce systems (**56%**) are deemed to be the most effect methods to enhance interaction

Global Barriers:

- Barriers to global business are diverse, with legal, commercial and cultural challenges all cited
- Foreign exchange is the most widely experienced barrier (**26%**) encountered by global buyers
- Regulation (**18%**), regional tax laws (**18%**), commercial terms and conditions (**18%**) and cultural differences (**14%**) were cited as significant challenges respectively

69%

believe supply chains are evolving into complex networks of commercial interactions, increasing cost saving challenges

69%

Over two thirds (69%) confess that late or erroneous payments is a problem for their suppliers

64%

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The Network Effect

The commercial landscape has changed considerably, complex systems now exist with multiple buyers and suppliers interacting within a new financial climate. As a result, organizations are under new pressures to utilise cost efficient processes.

69% believe supply chains are evolving into complex networks of commercial interactions, increasing cost saving challenges (**Fig. 1**). French (**78%**), US (**77%**) and German (**77%**) organizations show a higher awareness of supply network complexity and the cost challenges it creates. With an increasingly complicated framework of supplier relationships, the clarity of supplier payment information becomes compromised. **59%** think the visibility of information relating to supply chains and supplier payment is becoming more difficult due to complex supplier environments. This is felt most strongly in the US, where **71%** of organizations acknowledge there is a lack of clarity.

Against these observations of 'compound complexity', buyers understand that action is required. **62%** claim connecting dissimilar parts of the purchase and payment process within their business is of critical importance over the course of the next year (**Fig. 2**). Increasing the connectivity of the system is felt most strongly in the US (**78%**) and France (**70%**). Businesses therefore understand that in order to overcome the barriers created by systemic complexity, disparate payment processes must be integrated.

Businesses are fully aware of the P2P challenges they must overcome to achieve better integration. **46%** are concerned that any initial changes could be disruptive to their already complex supplier network, with those who accept the importance of P2P systems more likely to recognise this (**53%** vs. **38%**). Questions exist over how versatile current networks are in dealing with change, with **46%** claiming their current system lacks the required flexibility, a challenge most prevalent in France (**64%**). Understanding the complexity of how suppliers interact (**26%**) is a particular concern for businesses, and consequently this creates difficulty in measuring the benefits made to the purchase and payment system (**43%**). Financially, organizations are faced with the challenge of making a return on system investments. **42%** are concerned that any investment will result in small margins of improvement for the business, a concern felt strongly in the US (**52%**).

FIGURE 1: Supply network complexity (agree/strongly agree). Supply chains are evolving into complex networks of commercial interactions, increasing cost saving challenges.

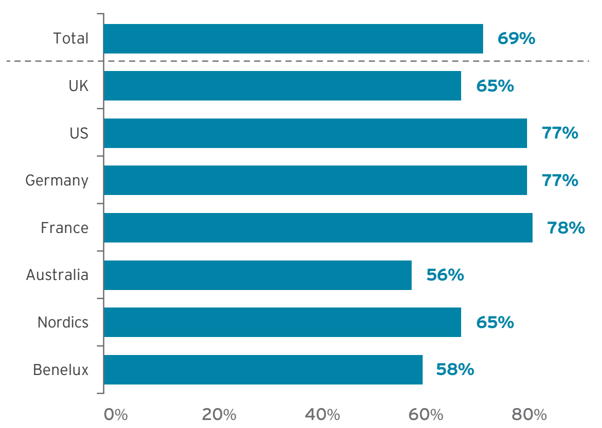
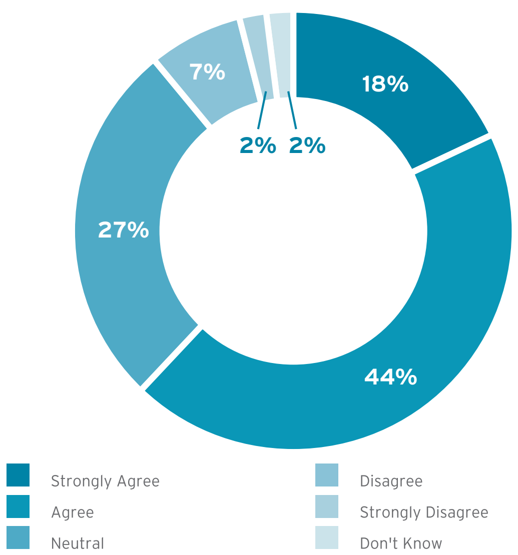


FIGURE 2: Connecting the P2P process Disconnecting disparate parts of the purchase and payment process within our business is of critical importance for 2012/13



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Supplier Sensitivity

Buyers understand the pressures their suppliers are under and acknowledge that they depend on a network of supply equal or even greater to their own.

Two-thirds of organizations (**66%**) agree that their suppliers rely on a level of providers equivalent to their own company or even greater. With such a dependent relationship in place, it is understandable that when credit lines break down suppliers start to feel the pinch. Buyers are inclined to believe that their suppliers rely on credit lines more than their organization (**35%**), rather than less so (**22%**) (**Fig. 3**). This reliability is stronger in France where **44%** of companies believe their suppliers rely on credit lines more than their own organization. Businesses understand they are no longer 'central' to the production process, but are in fact part of an ever growing complex supply network.

Late or erroneous payment has a detrimental impact to suppliers' performance. Buyers are fully aware of this: 1 in 3 companies (**32%**) understand that late or erroneous payables are likely to hit their suppliers harder than their own business; compared to just 1 in 4 (**25%**) who believe it would have less of an impact. Such sentiment is highest amongst German (**38%**) and French businesses (**34%**), who acknowledge that late payments are likely to affect their providers more than themselves. Because of this, buyers understand that late or erroneous payables are an issue that needs addressing. Over two-thirds (**69%**) state that delayed payments are a problem for their suppliers, with just under 1 in 5 (**18%**) believing it was a significant problem (**Fig. 4**). Erroneous payments were more of a problem in France (**78%**) and the US (**73%**).

Despite the strong awareness that exists surrounding the importance of timely payments, 15% of invoices remain beyond their payment terms at any given time. This is a concern which gets progressively worse as businesses turnover more revenue and, whilst buyers understand that erroneous payables can lead to problems in an ever interconnected network, they are lacking a fully efficient solution to remedy this.

FIGURE 3: Suppliers' credit lines. Thinking of these businesses again, to what degree do you estimate that your suppliers rely on credit lines to provide you with products and services? Base: Total (553).

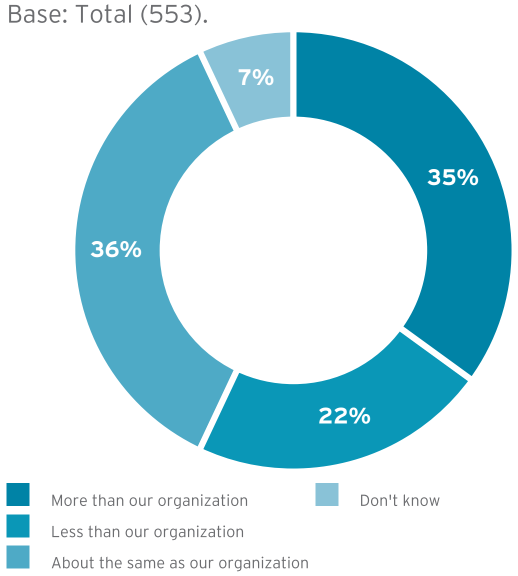
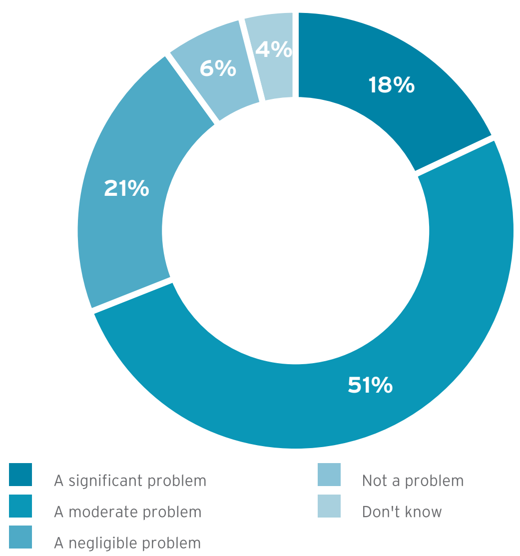


FIGURE 4: Late or erroneous payments. How much of a problem do you think that late or erroneous payment is for your suppliers? Base: Total (553).



Network Collaboration

Buyers and suppliers must look to cooperate in order to make cost efficiencies and an ‘open’ approach is favoured.

64% believe open and collaborative supplier networks provide a more effective basis for sustainable cost savings than closed or exclusive network environments (**Fig. 5**). This ‘network collaboration’ is seen as particularly important in France (**80%**) and the US (**78%**). However, there are perceived reservations towards a more collaborative approach. Over half of companies (**57%**) think increases in systems interdependencies between suppliers, partners and customers create commercial risks for buyer organizations. Those who believe in the merits of a more collaborative network are more likely to agree (**67%** v **41%**). Therefore, it is not an uninformed view that expresses concern against systems interdependency, but more a reasonable evaluation of the impact of change on organizations with legacies of intra-company silos and processes.

There are a variety of networks that can ‘accelerate’ the interaction process between companies. The development of online payments has meant e-commerce systems (**56%**) can enable businesses to perform efficient and quicker transaction with each other (**Fig. 6**). Maintaining a high level of communication is central to achieving an interactive network, and the majority of organizations believe shared information systems (**56%**), such as Logistics Tracking, has helped this. Payment and settlement is also viewed as a significant commercial accelerator (**46%**).Those who believe in the importance of connecting the P2P process together consider that the payment and settlement process accelerates commercial interactivity to a greater degree (**52%** v **37%**).

Despite the benefits it brings to personal interconnectivity, social networks are more likely to be considered a commercial disruption rather than a commercial accelerator. 1 in 3 (**37%**) believe social networks to be valuable at increasing commercial interaction, yet social media tops the list of ‘unwanted complexity’ as its ability to drive commercial interaction is scrutinised.

FIGURE 5: Collaborative networks (agree/ strongly agree). Open and collaborative supplier networks provide a more effective basis for sustainable cost savings than closed or exclusive network environments

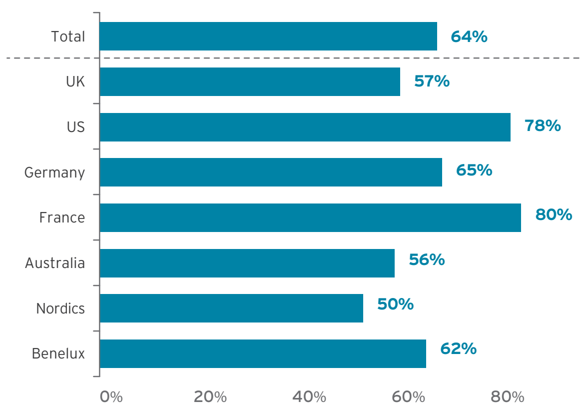
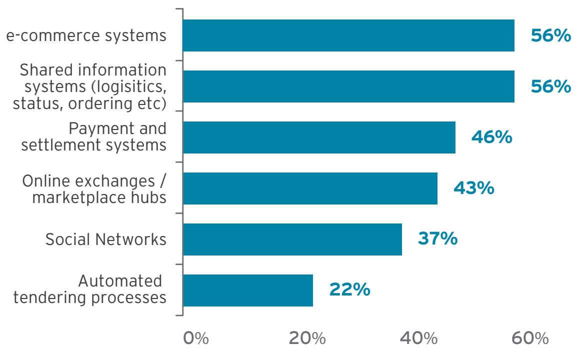


FIGURE 6: Integration 'accelerators'. From the following types of networks which do you think are improving the way companies interact on a commercial level? Base: Total (553).



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Global Barriers

The process of payment across international supply networks is met with many challenges, which arise from buyers’ experience of issues such as compliance, contract management and payment & settlement.

Foreign exchange is considered the biggest barrier to efficiency when dealing with overseas providers (**26%**) (**Fig. 7**). Other challenges experienced by buyers include compliance & regulation (**18%**), commercial terms & conditions (**18%**) and regional tax laws (**18%**). Challenges with local tax laws are felt particularly strongly amongst German organizations (**35%**). A further **14%** of respondents felt that cultural differences acted as a barrier with their suppliers.

The types of problems encountered can be far reaching. The majority of business (**51%**) experience delays in receiving the correct or appropriate records from their suppliers, mainly resulting from **43%** receiving erroneous invoices or payables. Just under a third (**31%**) of companies experience longer negotiating periods with their suppliers. This rises to **47%** for businesses who have encountered regulatory barriers with their providers. Other problems include lower quality communication (**36%**) and manual processes to deal with records management (**34%**).

In order to manage commercial relationships with international suppliers more effectively, **60%** of businesses are using third party operators to manage the billing and payment process, with a further **26%** planning to do so in the future (**Fig. 8**). Furthermore, buyers who believe that disparate parts of the P2P process need integrating over the next year are more likely to be adopting this method (**65%**), compared to those who don’t (**56%**). Other methods used to manage international suppliers more efficiently include using internal resources with specific international experience (**55%**) and investment in automated systems which optimise the international payment process (**47%**). A further **45%** look to outsource the supplier management process elsewhere.

Organizations that have experienced regional tax law barriers with suppliers are more likely to draw upon ‘external’ resources, in order to manage their commercial relationships more effectively. **71%** of these companies use third party operators to manage billing and payment processes, whilst **60%** opt to outsource aspects of the supplier management process.

FIGURE 7: Foreign supplier challenges. What from the following are more likely to occur when dealing with international supplier networks on contract management, sourcing and payment / settlement? Base: Total (553).

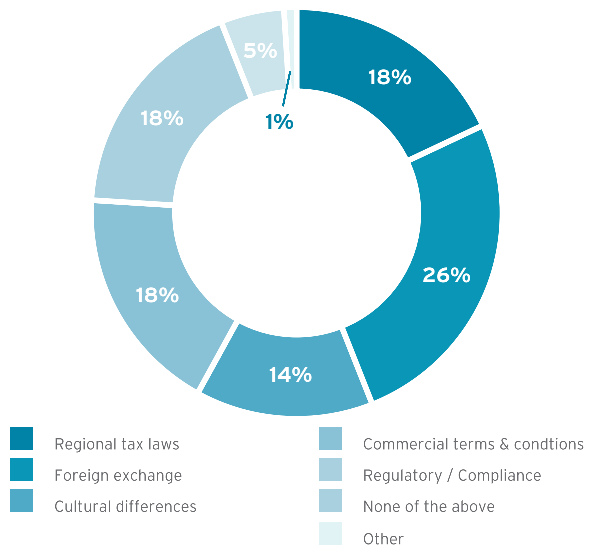
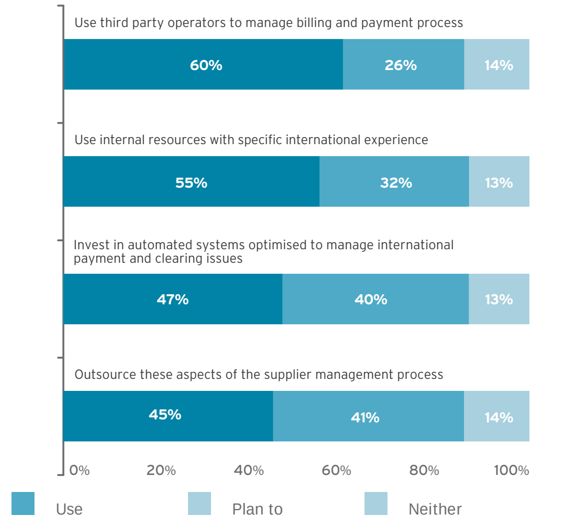


FIGURE 8: Supplier management. What from the following are methods that your company uses or plans to use to manage commercial relationships with international supplier networks more effectively? Base: Total (553).



Summary

Supply networks have become increasingly interdependent, with all agents within the B2B environment reliant on each other's actions. Payment, procurement and e-commerce networks, to name but a few, have all become intertwined as the supply system becomes more closely integrated. Increased interdependency brings with it greater need for 'synergies', as networks look to cooperate under a new and uncertain financial climate.

However, greater integration also creates unwanted complexity for businesses. The visibility of information becomes less clear as the supplier environment becomes increasingly disrupted. Organizations are therefore tasked with finding optimum methods which reduce both network inefficiencies and cost challenges.

Connecting disparate parts of the P2P process is high on the agenda for business over the coming year, with an increased focus on developing a collaborative network amongst suppliers which is both transparent and dynamic. With a more open system, businesses believe that a foundation is built for sustainable cost savings. However, innovative methods are perceived to bring with them a degree of uncertainty and risk for businesses. New networks, either owned or participated in, require operational changes and realignment. Operational change can be highly disruptive to supply networks and solutions must be optimised to ensure that synergies are maximised and bottlenecks are reduced to a minimum.

The supplier landscape has evolved: what was once a static supply chain is now undeniably viewed as a complex web of process interdependencies. Buyers understand that suppliers are mutual partners which rely on an effective network as much as them. Organizations therefore acknowledge that late or erroneous payables can be impactful to their suppliers, with the majority seeing this as a problem. Continued pursuit of this goal is essential. As shown in the Basware 'Fuzzy Finance' research of 2011, 84% of businesses have 'less than fully optimised' the payment process in place today.

When considering the details of specific components disrupting international supplier networks, the challenges are defuse. Foreign exchange, contractual 'Ts and Cs', regulatory pressures and the simple requirement of timely payment impact international supplier networks at various stages of the P2P process. There is evident appetite to solve these issues, with plans to improve systemic bottlenecks, increase in-house skills and outsource payment to domain experts all being contingent parts of a strategic roadmap to improvement.

The 'Disrupted Networks' research defines three key conflicts for businesses seeking to improve the value of the supplier network. A recognition of supplier 'pain' is undermined by a lack of systems efficiency, an appetite for open, collaborative commerce is tempered by perceived reluctance to change and an increasingly networked world comes with advantages but also layers of operational complexity. Conflict management of any kind requires a balanced approach in order to provide an effective way forward. CFOs that seek to accomplish this are doing so with an emphasis on greater levels of process connectivity, supplier visibility and an intention to address distinct challenges in the legal, commercial and cultural aspects of the supplier relationship with appropriate measures.