Trade Financing Matters™

RESEARCH

Nipendo's Early Pay Solution Opens New Opportunities

By David Gustin, Managing Editor, Trade Financing Matters

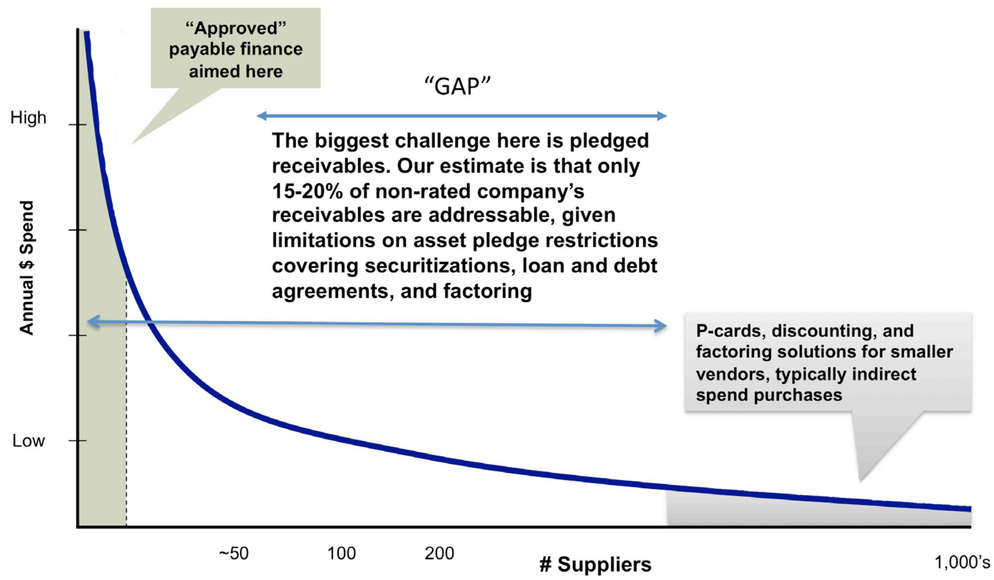
Many companies have developed early pay solutions to provide some form of liquidity to their supply base. With the recent Obama Administration initiative to speed business-to-business payments to small companies (dubbed SupplierPay) and the UK Government already pushing their corporate sector hard, this is clearly a hot area.

The aim to improve the supply and payment chain to spur healthier companies that are more likely to invest in new opportunities, equipment, and staff is noble. The companies signed on to SupplierPay — including Apple, AT&T, Toyota, Johnson & Johnson, Philips and Coca-Cola — have pledged to pay smaller suppliers faster and to share best practices.

When you stop and look at all the models emerging today, there are some interesting observations:

1. Approved trade payable finance only deals with the largest investment grade companies, and even there, with only 10 to 25 of a buyer's top supply relationships. In addition, given the thin pricing on these programs, there is not much in the way of margin to go around (in the form of rebates, incentives, third-party finance opportunities, etc.)
2. Dynamic discounting solutions can go after many thousands of suppliers, but for many vendors, they only capture the long tail of spend (a very small percent of overall spend – see the graph on the next page). The reason is that e-invoicing solutions are generally rolled out for indirect spend, which is a small percent of overall payables within a corporation
3. Large companies are absorbing significant p-card fees as their buyers pay with this method (both B2B vs. C2B). In some cases, this could run into the hundreds of millions
4. Many large corporations are flush with cash but do not want to commit their short term operating cash to funding their supply chain. Corporations are not in business to fund their supplier ecosystems; they are in business to grow and make profit. Wall Street analysts focus on three main variables when evaluating companies – growth, margins, and working capital management practices
5. E-invoicing solutions have enabled a much higher capture rate of invoices. While some companies have deployed EDI solutions with their partners for some time, the amount of electronic capture is much higher as solutions like paper to electronic, PDF, Web EDI, PO-based invoices, ERS, invoices originating electronically from a vendor portal or an e-invoicing network such as Ariba, Direct Insite, Nipendo, or OB10, etc. are deployed

Dynamic Discounting Solutions Typically Capture Long Tail of Procurement



There are several limitations with many models today. At the core, early pay solutions could benefit greatly by the following:

- Coverage of all spend categories, including direct, specialized expenses such as print, telecom, MRO, marketing, logistics, IT, catalog spend, etc.
- Automated validation process, accepted by both buyer and supplier, that also provides data that can be useful for third-party funding providers
- A hybrid funding model that gives corporations the flexibility to use both their own cash and third-party money as they see fit

What makes Nipendo different from other solution providers?
Nipendo is what we would call a next generation procure-to-pay platform. They have regional roots in the Israeli market and are now building a North American presence. In terms of functional footprint, Nipendo touches on all the advanced elements of e-invoicing.

Nipendo's spend coverage
Some spend categories are tougher to handle than others, which has traditionally led P2P vendors to focus primarily on indirect spend. The level of abstraction built into the Nipendo platform provides greater flexibility, and customers are utilizing the solution to manage all spend categories including some very intricate direct material transactions. In that sense, you may view Nipendo as a solution that brings the intimate level of integration found in EDI connectivity into a scalable, many-to-many cloud-based architecture that spans all spend categories.

Nipendo's validation solution
What makes Nipendo's validation solution unique is it is a seamless process where all invoices and trading documents are automatically validated and matched in real-time with no manual intervention, allowing suppliers to immediately correct any discrepancies to facilitate an errorless

end-to-end process from the supplier to their buyer's ERP system. Nipendo can support different data standards from PDFs to cXML to EDIFACT (and a lot in between!)

So what does that mean? When Nipendo says an invoice goes through approval to pay, their system validates that price is exactly right based on contract, that the quantity is correct based on receiving and purchase order information, taxes are compliant with location address, FX is calculated correctly, etc. They run all validations. When Nipendo says an invoice is approved, it says it is 100% validated against business rules of the buying organization.

Traditionally A/P would take in a bad invoice into their system and then try to figure out what to do with it. Nipendo does not allow something like this to happen. They put a firewall between their system and the invoice and only a good invoice would make it into the system.

A hybrid model for financing all suppliers

The market has certainly spoken when it comes to demand from suppliers for early payment. Data suggests that in some networks, suppliers will take payment acceleration as early as just 25 days and pay APRs at 20% plus.

The concern a corporate treasurer has is that once a supplier uses the service, they would like it to be there consistently. As these programs grow, they can potentially require substantial amounts of a company's short term cash to fund. Therefore, many large companies deploying early pay solutions should ask their provider if they have a third-party funding option.

Nipendo provides two options for their client (the buyer) to offer early payment to their suppliers:

- First, the client can decide to use the dynamic discounting feature on their platform and use their own cash. This model has been aggressively marketed to corporations as a way to give all suppliers an option to pay early. It is especially relevant to Nipendo's platform, as they can validate and approve invoices inside a client ERP within seconds
- The second alternative is more interesting. Nipendo has teamed up with Integrate Financial to deploy non-bank capital (hedge funds, sovereigns, family offices) to pay suppliers approved by the finance company. Integrate Financial looks at the client's suppliers and decides which ones are approved for early payment. Integrate Financial will then scrub Nipendo's transactional network data to make a credit decision. Embedded in their credit underwriting model is information about:
    - Dispute history and dispute resolution
    - Ability to track an invoice to a payment
    - Understanding cash dominion and assignment of proceeds within the ERP system

Clients

Nipendo Supplier Cloud is used by leading organizations across industries, including multinational organizations such as HP, IBM, Israel Aerospace Industries (IAI), Lilly, Office Depot, and Teva Pharmaceuticals.