



Ireland is About to Become a Whole Lot Smarter

How to prepare for
the new paradigm:
supply chain excellence
and e-Invoicing.

A White Paper

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Executive Summary

The Quarterly National Accounts bulletin from the Central Statistics Office in Dublin reports that both GDP and GNP increased in the second quarter of 2011 with new exports being the main contributor to annual growth. Domestic demand dropped by 2.2% which continues the contraction in domestic spending.

Against the backdrop of difficult domestic trading conditions and economic uncertainty in the Eurozone, this makes competition for market share more than challenging. In a shrinking market how do you maintain service levels and profitability when your customer base is looking for more value and lower prices? In effect, how do you manage your supply chain?

Into this cauldron of business uncertainty, the newly appointed Department of Expenditure and Reform issued the Public Sector Reform plan on November 17th. This plan will have far reaching consequences for the domestic economy in terms of how much the government spends and of equal importance, the way this spend is processed.

It is important to recognise that the scale of the proposed reform of the public sector will have a direct impact on the export-led sector and how Ireland is viewed as a location to do business from.

Under the auspices of major public sector change, the way business is conducted in Ireland is going to change forever. At a minimum, business leaders must take time to evaluate this impending change and assess how they are going to plan to take advantage of it.

Ireland is about to become a whole lot smarter. Welcome to Smart Admin.

The Scene is Set

The latest Quarterly National Accounts report from the Central Statistics Office for the second quarter of 2011 show seasonally adjusted increases of 1.6 per cent in GDP and 1.1 per cent in GNP compared with Q1 2011 data.¹

Net exports (exports minus imports) grew by €1,890m (23.9%) at constant 2009 prices between the second quarter of 2010 and the second quarter of 2011. Though somewhat encouraging these figures are somewhat pyrrhic as domestic demand, on the other hand, declined by €714m (-2.2%) over the same period, despite a significant rise in stock levels between Q1 and Q2 2011 (+€738m).

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Figure 1

Set against a turbulent global economy and a domestic economy that is still contracting, many companies are running to stand still. In a shrinking market how do you maintain service levels and profitability when your customer base is looking for more value and lower prices? In effect, how do you manage your supply chain?

¹ Central Statistics Office <http://goo.gl/3ydTQ>

Against this backdrop and the publication of the public sector reform plan, the Irish government has set the scene for a raft of change in the way business is to be conducted in Ireland.

The essence of this change will manifest itself in your supply chain and you how you engage in the automation of that process using e-Invoicing and other technologies. The first step in that process is to garner a deeper understanding of the concept of supply chain management.

Supply Chain Management

The term supply chain management or SCM was coined just under 30 years ago by Keith Oliver, a senior vice president with Booz Allen Hamilton. Appearing in a Financial Times article in 1982, the concept of SCM has taken root and is now recognised as a key competitive differentiator by companies (and countries) across the globe.

The concept of SCM is succinctly captured in the 'Supply Chain Management at 21' paper by Booz Allen Hamilton:²

“Supply Chain Management is a highly complex undertaking that involves multiple functional areas of an organisation, including procurement (purchasing) of raw materials, transportation (logistics) throughout the manufacturing process, inventory (warehousing), and distribution. It also includes the process of forecasting demand, and ideally will tie in with sales and marketing programmes as well.”

Those companies that are able to derive the SCM benefits are shown to share two key characteristics:

1. Where top management both sponsor and engage in the process of SCM
2. Where the concept of SCM is extended across the entire organisation

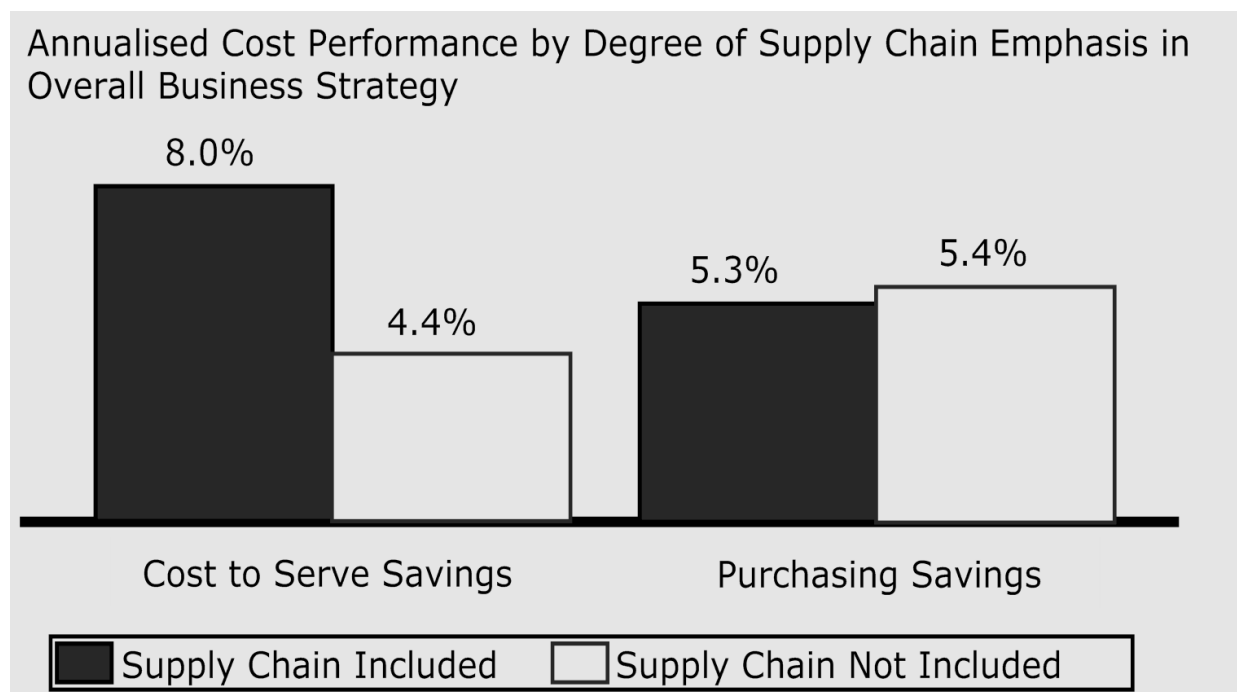


Figure 2

² Source: Booz Allen Hamilton <http://goo.gl/LRMbc>

A key finding from the report is that organisations where SCM is a component of the overall business strategy deliver double the savings in the cost to serve customers as opposed to those companies where responsibility resides lower in the organisation.

SCM delivers double the savings where it is on the CEO-level agenda

Supply chain management or SCM as it is known, is proven to deliver a range of benefits:

- Reduces costs
- Improves profits
- Increases customer satisfaction
- Increase brand equity

A cursory glance at the definition of SCM shows that it engages many functions and departments within an organisation. Indeed, for many, efficiency and profitability will be dependent on the performance of the supply chain of their suppliers and other trading partners. A key aspect of this performance is the ability of trading partners to exchange B2B documents quickly, effortlessly and without manual intervention. The approach to this way of doing business is Smart Admin.

What is Smart Admin?

At a high level Smart Admin underpins the effective and efficient management of B2B intercompany transactions. The Smart Admin opportunity is primarily related to back office activities. It facilitates greater productivity and use of a company's intellectual capital without overloading individual, team or departmental capabilities.

Smart Admin places particular emphasis on the activities that fall within the remit of the supply chain. Smart Admin automates paper-based processes in the supply chain, be it in the public or private sector. The overarching key benefit attributable to Smart Admin is an average 30% reduction in the supply-chain management costs.³

A fully functioning supply chain requires checks, controls and balances to ensure that it operates correctly and to the agreement of all trading partners. Today, some sectors of our economy have all but eliminated paper documents from their supply chains while other sectors continue to operate using the traditional manual paper based supply chain.

average **30% reduction**
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In effect we have, as we refer to them, pockets of excellence that have proven that the concept of Smart Admin is a realistic and achievable goal. These pockets of excellence span both the private and public sectors.

Companies that move to tackle and automate paper-based transactions are proven to operate more efficient supply chains and deliver much better value to their customers. Their staffs are also freed from the laborious administration of paper-based activities to concentrate on more productive tasks.

Paper-based commercial transactions have long been a proven barrier to quick and efficient intercompany transactions. In light of the pressure to reduce costs across the public sector it is an imperative of all concerned to find innovative ways to introduce efficiencies that do not negatively impact on existing service levels.

We have referenced the substantial cost savings that are achieved by eliminating manual inputting of data, print and postage, dispute resolution, hardware and IT, and a variety of other business costs. Smart Admin goes further and underpins a core requirement of the working group that existing service levels are not impacted:

- Staff are freed from the mundane task of manually processing paper-based documents for the delivery of more productive services

³ This figure is based on Celtrino's experience of more than 20 years automating the supply chain for hundreds of companies.

- Huge reductions in dispute resolution are seen in all departments as all issues pertaining to the supply chain are immediately flagged and relevant departments can act accordingly

Smart Admin – A Sustainable Platform to Deliver

The Public Sector Reform plan⁴ lists five major commitments to change and they are perfectly aligned to the concept of Smart Admin.

At the heart of this proposed reform agenda there is a dedicated focus on five major commitments to change:

- i. Placing customer service at the core of everything we do;
- ii. Maximising new and innovative service delivery channels;
- iii. Radically reducing our costs to drive better value for money;
- iv. Leading, organising and working in new ways;
- v. Strong focus on implementation and delivery.

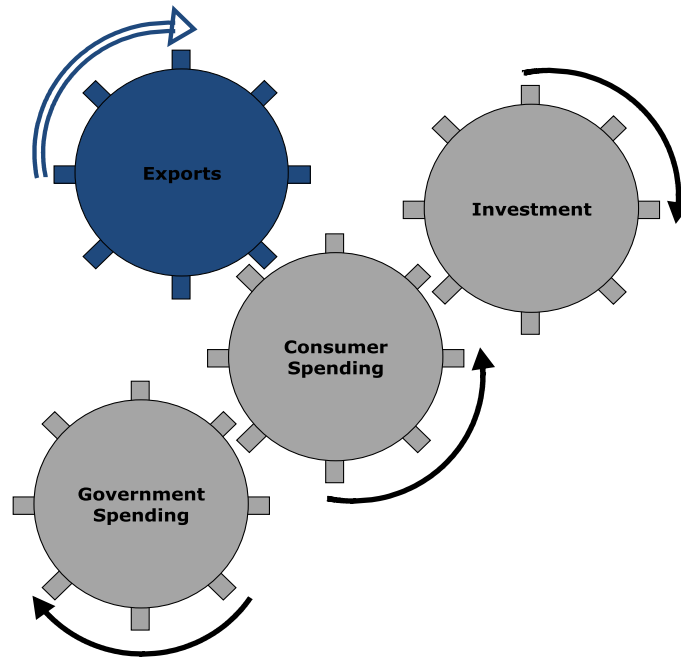
The headlines across the Irish media on the 17th November and ensuing days zeroed in on job losses and cost reductions in the public sector. Seeking to address the imbalances in the public finances from a cost-cutting-only perspective is fraught with difficulty. Service levels are threatened and the thousands of SME's that have strong economic dependencies on the public sector are further starved of much needed business.

So it is important to highlight that this time, or so it appears, the government is moving forward concept closely aligned to that of Smart Admin. Smart Admin asserts that by first looking to introduce efficiencies you then reap the benefits of better value via cost reductions but maintain the existing levels of service with the same staffing levels.

The Making It Happen⁵ report published by Forfás in 2010 employs a diagram, figure 3 below, that expertly presents the challenges facing the Irish economy. The spending by the public sector is inextricably linked to export driven growth which in turn feeds investment and consumer spending. The report maintains that deviating from the export-led model cost Ireland dearly in the past decade.

⁴ Public Sector Reform, November 2011, Dept. of Public Expenditure and Reform <http://goo.gl/MDwg6>

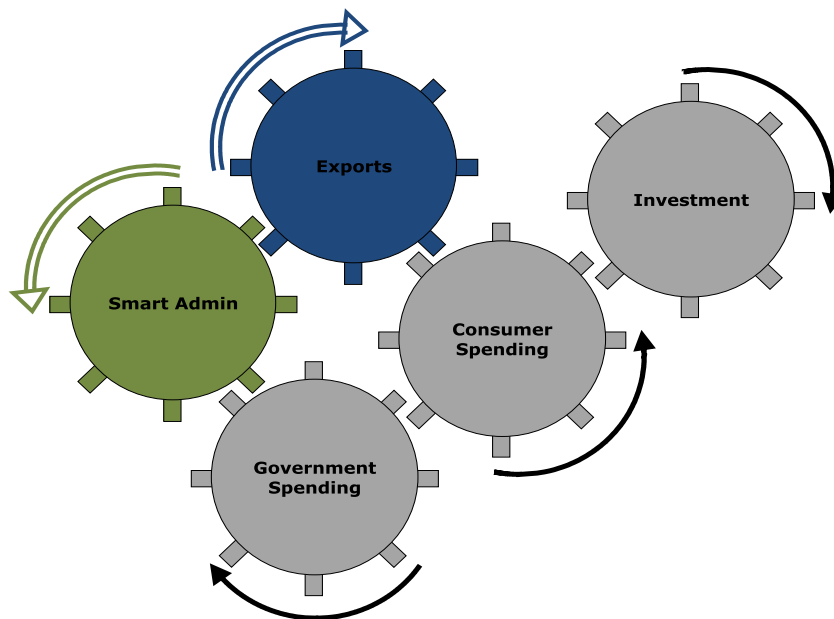
⁵ Making it Happen: Growing Enterprise for Ireland, October 2010, Forfás <http://goo.gl/CQs8K>



The Virtuous Circle: Export Driven Economic Growth

Figure 3

By including the potential of doing business smarter in the 21st century, Smart Admin adds a new dynamic to Forfás's virtuous circle as demonstrated in figure 4 below. Ireland can now reap the significant benefits of an automated supply chain which generates hundreds of millions in savings for the exchequer and at the same time empowers Irish SME's to trade overseas.



The Virtuous Smart Admin Circle: Export Driven Economic Growth

Figure 4

Smart Admin - Pockets of Excellence in Ireland

There are already excellent examples of organisations that have pioneered Smart Admin principles and reaped the benefits for their organisations.

Here are a few examples from both the private and public sector.

Uniphar

In a competitive market, multiple sales channels and effective business processes underpinning quality customer service is what makes companies stand out from rivals. Uniphar Group, one of Ireland's largest drug distribution providers to the pharmacy sector, set itself the ambitious goal of meeting these targets from a single project.

Uniphar has some 1200 products in its Link portfolio and it distributes to 500 key accounts in pharmacies around the country. The large quantity of orders this involves means the group could gain significant efficiencies in administration by moving to an integrated, web-based ordering system which is branded 'Link.' With the promised cost effectiveness and efficiencies to be gained from doing so, the company set itself a target of growing sales and increasing margins for its customer base which would provide an incentive for customers to generate more orders from Uniphar's Link.

“Where the innovation lies is in creating a procurement system that will save pharmacy managers time and effort, as well as money”

Tom McKenna

All purchasing information is stored centrally. This way, the system gathers all of the necessary purchasing data to create tailored individual monthly reports for each registered member. This statement shows the savings made by the pharmacy from buying online via

Link. Through the “my link account” section, pharmacy managers have full access to review recent orders, check invoices, credit notes and statements. These can be downloaded if they wish as PDF files.

“Identifying that a large group of independent pharmacies buying together could get the same type of purchasing discounts as a chain – that is not innovation, it is just basic economics. Where the innovation lies is in creating a procurement system that will save pharmacy managers time and effort, as well as money,” Tom McKenna, Commercial Director with Uniphar.

Kooky Dough

The publicity surrounding the success of Kooky Dough and its major contract award with Tesco is proof positive that there is potential for innovation in the food sector for indigenous Irish businesses. Kooky Dough's success is also a case study for other emerging food manufacturers on the journey from the farmer's market to a major contract with one of the world's largest food retailers.

"Kooky Dough's progress has been well documented, in part due to our appearance on Dragons Den, but we began selling Kooky Dough 18 months ago at farmer's markets to test and refine our initial product," said Graham

“Kooky Dough is confident that embracing e-Invoicing will prove to be a smart move”

Graham Clarke

Clarke, Joint Managing Director at Kooky Dough. "We learned a great deal at the farmers markets but that is a cash-based, low volume supply chain and ultimately we had to look to bigger markets to grow the business."

"To realise our business goals we had to up the ante in terms of our back office systems as the large retailers process all their orders in the cloud," added Clarke. "So we began a search of the market for a company that could provide the technology to enable Kooky Dough to meet its electronic trading obligations, especially with Tesco with whom we had won a €550,000 contract to supply their Irish and UK stores with a Tesco own-brand product. Kooky Dough is confident that embracing e-Invoicing will prove to be a smart move."

Aramark

Another example of innovation in supply chain management is ARAMARK Ireland.

In Ireland, ARAMARK operates across 400 locations and all were ordering – with the financial and administration cost of moving all that paper around, then re-entering

“Any manager who doesn't pursue AP automation won't have the information they need to run the business”

Phillip Fischer

information manually onto a system so that the account could be closed. "To the fore were our needs to be efficient in delivering services to our clients," says Phillip Fischer, Chief Information

Officer with ARAMARK Ireland. Since ARAMARK moved to an Accounts Payable solution, 37 of its main vendors were brought on board the system and now, well over 98 per cent of the total invoice volume is managed electronically. The company is now more efficient at closing accounts and if an invoice is not approved, it's immediately visible to the finance

administration staff. It has effectively removed the work involved for the finance staff to re-enter information. This is not a system that needs constant watching, as Phillip Fischer says: “Once in place, it just runs.”

To take the wider perspective for a moment, there’s been a lot of talk recently about the smart economy hence there needs to be a greater focus on eliminating inefficient, costly, time-consuming business processes. Phillip Fischer puts it very clearly: “any manager who doesn’t pursue AP automation won’t have the information they need to run the business.”

LA Quotes

LAQuotes.ie is an online tendering/quotation solution that has been developed to streamline procurement processes and deliver real benefits to both Local Authorities and Suppliers. The solution was developed by Kerry County Council in partnership with the other participating Local Authorities and there are 33 Local Authorities participating in LAQuotes.ie for 2012.

A resounding success, there are currently more than 3,900 suppliers registered on the portal and there has been a reduction in hard-copy document requests from more than 284,000 to 36,000.⁶ “Based on the benefits predicted in 2002, the system has yielded savings to local authorities in the order of €250 million in the period 2006-2009.”

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MotorTax.ie

What seems so commonplace today, renewing car tax online was until recent times a laborious time consuming affair for the motorist and the Department of Transport. The MotorTax.ie service was introduced on a trial basis in Clare, Galway and north Tipperary over a three month basis in 2004 and in that time 9% of the motoring public used the service to renew their road tax.

In the intervening period the MotorTax.ie service has grown to be a standout success story for the public sector with over 90% of motorists electing to use the online over the manual, paper based process.

The question for any reader of this white paper is when was the last time you physically went to the motor tax office to renew your car tax?

⁶ Source: Report of the Local Government Efficiency Review Group, Page 103

Smart Admin – Success in Europe

On mainland Europe, some of our EU partners have been more proactive. Denmark, similar in size to Ireland, has long recognised the opportunity of embracing a national electronic invoicing infrastructure. The Danes passed into law in 2005 a requirement that all invoicing with the public sector was to be electronic. Although the Danish public sector model called Nemhandel⁷⁸ is presented as an outwardly focused public-service channel for Danish business, the benefits accruing to the Danish economy are staggering. The Danish National IT & Telecom Agency (NITA) estimates that the project will save the public sector €10 million annually⁹. The real extent of the benefit is when the savings are measured in the private sector and the agency estimates businesses will save about €591 million per year from reduced invoicing costs with the public sector.

“businesses will save about **€591 million** per year”

Sweden, Finland, Norway and Denmark have led the EU electronic invoicing movement and today all have legislation in place that mandates all invoices with the public sector to be submitted electronically. Spain, Italy and Greece are following suit. Other EU member countries have various flavours of legislation in place but there is a common movement to harmonize e-Invoicing across Europe.

The European Union launched the Pan European Public Procurement Online Project (PEPPOL) project in May, 2008¹⁰. The aim of the project is to enable companies, in particular the SME base, to bid online for public sector contracts anywhere in the EU.

Although still only at pilot stage, PEPPOL will transform an EU wide GDP spend by government of €1,500 billion. Irish businesses that trade with the Irish public sector will face competition from other SME's across Europe, and in turn Irish SME's will be able to compete for business in every European Union jurisdiction.

The risk to Irish businesses by not embracing Smart Admin is that they will lose business to their smarter, more connected European neighbours. This is not conjecture, this is a very real possibility and Ireland has been slow to take advantage of this new online model.

The potential for export-led growth is obvious but the benefits that could accrue to the Irish public and SME sectors are predicated on the Irish government putting in place the mechanisms necessary to make the PEPPOL project an Irish success story.

⁷ <http://www.epractice.eu/en/cases/easytrade>

⁸ <http://en.itst.dk/digitisation/nemhandel/about-nemhandel>

⁹ <http://www.futuregov.asia/articles/2010/jan/13/denmark-helps-businesses-national-e-invoicing-syst/>

¹⁰ <http://www.peppol.eu/>

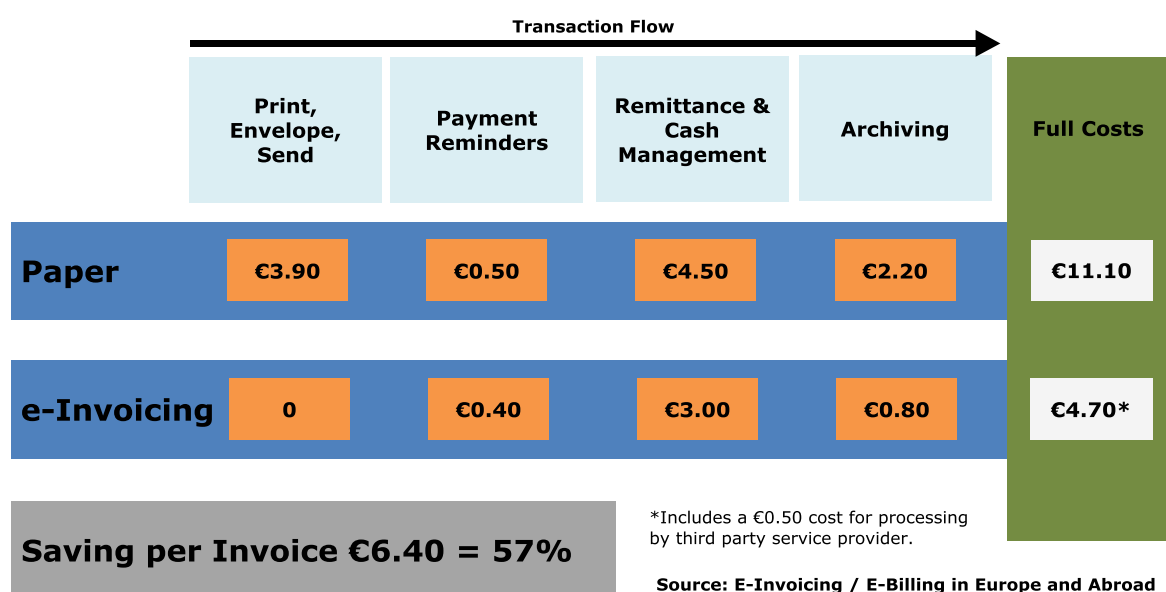
Smart Admin First Steps: e-Invoicing

No document holds more weight than the invoice. It is a list of goods sent or services provided, stating the sum due for these. Without it, a demand for payment will not be made, be it electronic or paper based. For many companies it has proved to be a fruitful hunting ground to assess the viability of the Smart Admin concept and as a result it sheds most insight into the efficiency and cost savings to be made through the adoption of e-Invoicing.

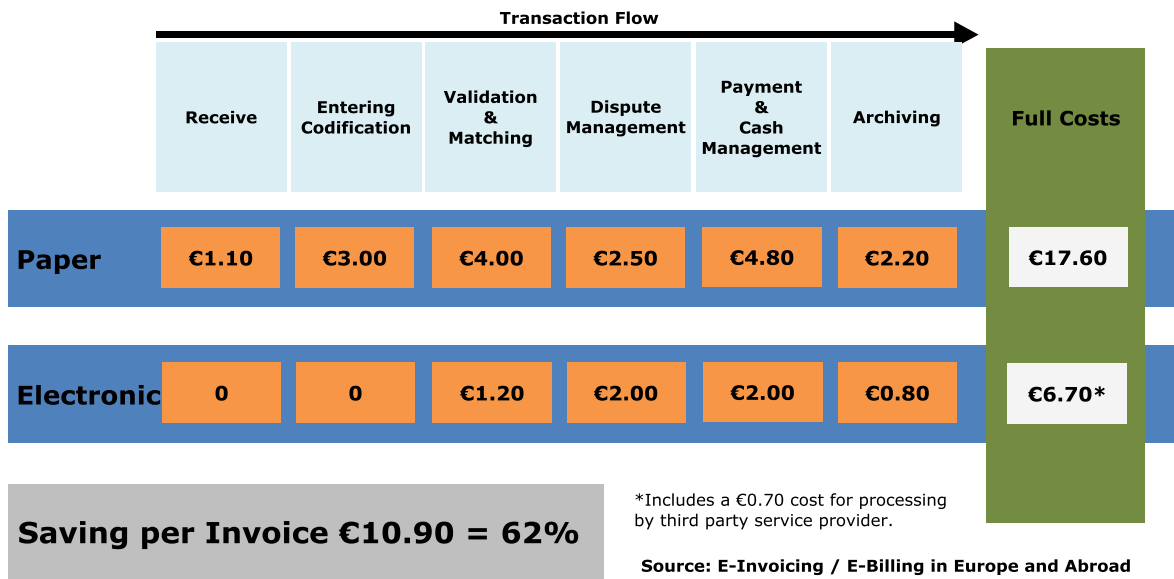
However, it is worth pointing out that statistical data of this nature is difficult to come by such is the reluctance of most companies to openly discuss the monetary and efficiency gains made by moving to an e-Invoicing solution. A key source of data is the 2011 report from Billentis, a Europe e-Invoicing specialist consultancy, titled 'E-Invoicing / E-Billing in Europe and Abroad'¹¹ and it provides statistical insight into the savings potential for both the issuer and receiver of the invoice.

Bruno Koch, the author of the report, points out that the average invoice survey in the sample had an average of 1.5 pages. Invoices can and do run to many pages and hundreds of lines so by default, the level of complexity and savings will increase with invoice size.

For the issuing company the report point to a saving of over 50% which is a saving per invoice of €6.40. Simple math will help you work out your own gains to be made from this service.



¹¹ Source: Bruno Koch, Billentis <http://goo.gl/mqbvZ>



Over on the receiving side the savings are even higher at 62% with a saving per invoice of €10.90. One of the major uplifts from e-Invoicing is that disputes are dealt with on an exception basis only so for many the saving per invoice could be many times the quoted amount. It is not unusual in companies with a high dispute management rate to see full costs approaching €40 per invoice.

In 2011, roughly 5 million European businesses and 75 million consumers are expected to send or receive electronic invoices. They will exchange more than three billion e-Invoices. But the majority of businesses in Europe and Ireland continue to send and receive paper invoices.

According to the 'E-Invoicing / E-Billing in Europe and Abroad' report Irish businesses can save 1-2% of their turnover by replacing paper invoices and optimising the related supply chain processes. Based on the Irish GDP figure of €123 billion in 2010, it translates into €123 - €246 million in untapped potential savings for Irish businesses.

The key metrics for e-Invoicing are well documented and the business case is very clear. As a first step on the path to Smart Admin this is as good a point as any to begin.

Smart Admin – The Missing Link

It is unquestionable that as a small open economy strategic decisions have to be made that will shape the economic and social landscape of the country for decades to come. In the past few years we have made tentative steps in the right direction as evidenced by Uniphar, ARAMARK and Kooky Dough. But we should also learn from our European colleagues, especially the Nordic region as they have fully embraced the concept of an automated and electronic supply chain and is reaping significant benefits.

This white paper should at a minimum place the topic of the paperless or automated supply chain at the top table as a point of discussion. Smart Admin is Celtrino's vision not only of the future but of the here and now. It works, we have proof it works and the results that accrue are both measurable and substantial.

The staff of the public sector in Ireland are also deserving of the latest advances in best business practices especially when they are as readily transferrable as Smart Admin. Leaving aside the growing pressure to reduce costs and trim services, it is incumbent on the country's elected leaders to ensure that all public-sector bodies are empowered to deliver the best service levels possible. The Public Sector Reform plan has its sights set on delivering a smarter public service.

Smart Admin is Celtrino's vision of the way forward. We believe Smart Admin provides a way forward that reduces costs and maintains service levels in our public service sector, builds an online business framework that will serve generation of domestic businesses, improves the attractiveness of the country as an FDI location and assists in the internationalising of a generation of Irish SME's.

Follow the conversation:



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