The Ten Business Benefits of E-Invoicing

There are numerous benefits to be gained by shifting away from paper and manual based invoice processing to more digitised approaches. As with any automation project, the cost savings that can achieved from e-invoicing will vary based upon the starting point. Companies which only send paper invoices via post will generate the most savings. Other companies which using Optical Character Recognition (OCR) scanning techniques to convert paper invoices into electronic format have already achieved significant cost savings even though they have not truly shifted to a digital invoice model. Proper electronic invoicing is considered by most to be the transmission of a structured EDI or XML document from the supplier into the buyer's Account's Payable (AP) system. Depending upon the location of the buyer or supplier, regulations also may require a government issued identification number, qualified electronic signatures, specific content fields and long-term archival of the invoice.

There are ten key business benefits that AP organisations can expect to gain from a shift toward electronic invoices:

1. **Digital Invoice Capture—**Invoices received as a PDF attachment to an e-mail or via post introduce unnecessary costs and complexities into the AP and Accounts Receivable (AR) processes. For invoices received via post, the documents must be sorted, routed, opened and rekeyed into an AP system. For invoices received via e-mail, the documents must be saved, printed, rekeyed and possibly forwarded. Data re-entry is the most problematic of the processes as it is time-consuming and error-prone. E-invoicing fully automates the invoice capture process with data being routed straight from the supplier into the buyer's AP system.

2. **Automated Invoice Validation—**Most AP organisations perform validations of line items on the invoice before routing the invoice to Line of Business managers for approval. For example, buyers often require suppliers to list the buyer's part number, buyer's purchase order number and general ledger or cost code on an invoice. Such references enable the AP department to quickly identify the goods being purchased and the department responsible. In addition, AP clerks will need to ensure that the arithmetic such as the calculation of extended costs is accurate. There may be a need to validate VAT or GST calculations as well. In addition to capturing the data electronically, most e-invoicing solutions will also perform field-level validations of the content as well.

3. **Automated Matching—**One of the more complex validations performed is the matching between an invoice and the related documents in the procure-to-pay lifecycle. The pricing and terms on an invoice should match those negotiated in the master contract with the vendor. Additionally, the line-item quantities, product descriptions and per-unit pricing on the invoice must match those of the purchase order and the actual goods received. These matching processes can be performed manually. However, the costs, accuracy and time required for the validations can be significantly reduced through automation. A key component of an e-invoicing solution should be matching process between the contracts, PO, invoice and goods receipt notice.

4. **Vendor Self-Service—**Perhaps, the most costly aspects of invoice processing is not the capture or validation of the data, but staffing call centres to support vendor inquiries about payments. After submitting an invoice the collections and AR teams within a supplier will typically contact the buyer to confirm receipt and approval of the invoice. Following the approval, the supplier may follow up again to inquire about the actual payment date. Significant time and expense is incurred responding to vendor calls and researching the status of invoices. A key element of any e-invoicing program should be a portal which offers vendors the ability to check the status of approval processing or planned payment.

5. **Enhanced Cash Management—**Paper or e-mail based invoices take longer to become visible in AP systems. Paper and e-mail based documents also have a higher probability of being lost in the approval process. Without visibility to invoices in the approval process, cash managers lack the comprehensive data neces-

sary for forecasting. A large invoice, which is not discovered by the treasury organisation until shortly before payment, could result in a significant cash deficit relative to forecast. As a result, a business may need to borrow funds at the last minute at a relatively expensive premium. By processing invoices electronically, all upcoming payments become visible to the treasury organisation in the accounting system improving forecast accuracy.

6. **Enhanced Account Reconciliation—**Suppliers are often challenged to reconcile the payments they receive from customers against the original invoices they submitted. A supplier may have submitted 4 invoices for €5000 during a single month, but received a single payment for €18,000. To reduce banking fees, customers will frequently consolidate payments for multiple invoices into one single funds transfer. Additionally, customers may claim deductions against an invoice due to shipment problems such as damaged or missing items. Upon receiving a consolidated payment, confused suppliers will frequently call the buyer's AP department to inquire about the details behind funds received. To simplify account reconciliation for suppliers, customers should send electronic remittance advices along with a payment that provide a detailed accounting of the invoices paid as well as debits, credits or adjustments taken.

7. **Lower Carbon Footprint—**Proponents of e-invoicing also promote the lower carbon footprint of electronic transactions. In theory no paper is consumed. Nor is there any transportation of the paper from supplier to the buyer. Although the digitisation of a single invoice does not lower greenhouse gas emissions significantly, the cumulative effect of removing millions of paper invoices from the financial supply chain is impactful. The impact of removing tens of billions of paper invoices from the financial supply chain would be significant.

   While paperless invoice processing does drive near term cost savings, there are often further benefits that can be gained through more ambitious AP automation projects. The introduction of electronic invoices into a financial supply chain can be a key enabler to other projects such as Evaluated Receipts Settlement, Supply Chain Finance and category spend management, each of which can have even greater impacts to a company's income statement or balance sheet. However, these broader AP automation projects often require new approaches to financial supply chain management such as reversing the flow of invoices from buyer to seller or eliminating invoices altogether.

8. **Enhanced Spend Management—**Companies large and small are under constant pressure to reduce costs. Cuts which eliminate waste or inefficiency are always preferred to those which impact the labour force, product development or customer service. Spend management programs can identify sources of fraud, waste and abuse by aggregating data from purchasing, contracts and AP systems into a data warehouse that can be analysed for cost saving opportunities. Examples might include reducing maverick, off-contract buying; cancelling unused services and consolidating spend with fewer suppliers. In categories such as travel, legal, utilities and telecommunications expenses, spend management can provide insights that reduce costs by 2-10%. Regardless of which spend category is the focus, a key enabler for spend management programs is the ability to receive electronic invoices from suppliers.

9. **Access to Early Payment Discounts—**Electronic invoices enable faster processing and approval cycles. Suppliers are often willing to exchange a discount of 1-2% of the total charges on invoices in exchange for an earlier payment. There a number of different models for early payments ranging from buyer-managed invoice discounting programs, supplier receivables factoring programs, bank-led supply chain finance programs and multi-bank electronic marketplaces such as The Receivables Exchange. Each of the different models from receivables factoring to supply chain finance appeals to different types of companies. However, the key enabler to each of these different models is the electronic exchange of an invoice.

10. **Evaluated Receipts Settlement—**In the many industries invoices are fraught discrepancies which lead to disputes, chargebacks and late payments. Invoice disputes can cost $50 or more to resolve leading to inefficiencies in the financial supply chain. This begs the question that probability of a supplier generating an invoice correctly is relatively low then why have

the supplier generate one at all? An alternative approach is to have the buyer self-generate the invoice based upon their view of the amounts due. Upon receipt (or consumption) of goods from a supplier, the buying organisation will self-generate an invoice. The invoice amounts are calculated base upon the pricing agreed into the original purchase order and the goods received as recorded in a warehouse management system. The invoice is sent from the buyer to supplier, the reverse of the normal flow. A payment is made at a later time based upon the payment terms using electronic funds transfer. The process, referred to as "self-billing" or "evaluated receipts settlement" is popular in certain industries within Europe and North America. Electronic self-billing requires the automation of a broader set of procure-to-pay functions. For example, purchase orders and ship notices must generally be digitised as well.

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