

e-Invoicing

Why Should I Care, and What Can I Do About It?

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What is e-Invoicing?

The simplest definition of an e-Invoice is that it is an invoice that can be sent and received electronically. The implicit and commonly-made assumption in this definition is that such electronic transmission of data does not require a paper-based process and hence eliminates the corresponding costs that would be otherwise required in a paper-based process.

Benefits of e-Invoicing

The primary benefit in sending and receiving electronic invoices is quite obvious. The first one is that it saves money for the vendor by eliminating the need for the vendor to print and mail their invoices. It also saves money for the buyer by eliminating or reducing the need for costly data entry of the invoice data into the buyer's accounting system.

These benefits are significant enough for organizations to care about e-Invoicing. However, the actions that an organization can take to realize these benefits are fully dependant on their current level of automation in their invoice processing functions.

Our company has invested in an ERP system - Is that not sufficient?

Most accounting systems in mid-large buyer organizations are functions of their ERP systems, and ERP systems traditionally have not focused on providing the ability to take in the supplier's data, or the functionality to act on the supplier's electronic data once the data is within the company. In the eighties, the large manufacturing companies invested significant resources in building direct point-to-point EDI (Electronic Data Interchange) connections to their largest vendors in order to solve this problem. However, building such EDI connections is an expensive and time-consuming proposition and moreover the EDI connections are not flexible enough to adapt to the dynamic marketplace that today's companies operate in. Hence, buyer organizations have turned to solution providers that offer Invoice Processing and workflow capabilities. Such vendors are referred to as EIPP (Electronic Invoice Presentment and Processing) vendors.

The term e-Invoicing has become a popular buzzword in recent times. However, it means different things to different people. This white paper explains e-Invoicing from a buyer's perspective and provides guidelines on how to approach an e-Invoicing initiative.

Almost all EIPP vendors market and promise electronic invoicing. But, the fact that a majority of invoices are still sent as paper invoices goes to show that the conversion rate to electronic invoices is still rather low. This is because most EIPP solutions cannot understand and absorb the invoice data sent by the thousands of suppliers that buyers typically have. Hence, the solution proposed by such EIPP vendors is to force the suppliers to adopt a single, proprietary data format, which of course finds very low adoption among suppliers that don't want to change the way they have been doing business.

So, how can our organization approach an e-Invoice initiative?

What is a buyer to do when this is the case? There are a few basic guidelines that buyer organizations can use when selecting an e-Invoicing solution:

1. Set realistic goals – If the current volume of invoices is predominantly paper (over 90%), then claims of converting 100% of the invoice volume to electronic within a short time period of a year are to be taken with a pinch of salt.

2. Ask for a multi-channel input strategy – Only solutions that can take in input from multiple different input streams can accommodate the entire volume of invoices and convert them to electronic.

3. Demand that the solution not change existing systems – Vendors are loathe to change their invoice sending mechanisms just to satisfy a single client's requirements. Hence, the e-Invoicing solution should not force vendors to change their existing processes and mechanisms drastically. For example: If most vendors have the capability to send invoices as email attachments, then an e-Invoicing solution should accommodate email as an input mechanism and should not force the vendor to change their invoice format.

4. Work jointly with the EIPP vendor – Encouraging suppliers to send electronic invoices is not as difficult a task as it is made out to be, especially, if the suppliers do not have to change their existing mechanisms or formats. It however requires that the buyer organization and the EIPP vendor jointly send a message to the vendors explaining the different options available to send electronic invoices, and more importantly, the benefits of sending invoices electronically.

5. Work out the economics – Ensure that the economics of the deal provide an incentive to all parties (buyer, suppliers, EIPP vendor) to move towards converting as many invoices to electronic as possible. The right mix of electronic to paper will finally depend on the incremental benefit offered by converting the next supplier to electronic.

An optimal solution should address these functional requirements effectively with the following capabilities:

1. Invoice generation/receipt

- An effective solution should be capable of receiving invoices from multiple sources. These sources could be the suppliers that send invoices or the networks that already may link some of your largest suppliers.
- The solution should provide a valid path to going 'fully electronic' in a realistic and optimal timeframe. During the ramp-up period, the solution should allow for a single channel of invoice information into the ERP system regardless of the nature of the invoice sending mechanism.
- The solution should provide a low/no-cost option for small suppliers to send their ad-hoc invoices electronically. This is typically accomplished through an efficient vendor portal with a web-form for manual entry of invoice data.

2. Workflow management – Once the invoice data is received, the solution should provide an efficient means of routing the invoice according to the company's business logic. Such routing can be to the appropriate approvers, or automatically to the ERP system if approval is not needed as in the case of most PO- based invoices that can be automatically matched to their purchase orders.

3. Exception Handling – There will always be the need for AP specialists to take action on invoices that cannot be automatically routed to their appropriate destinations. These could be for reasons like unknown vendor, quality checking etc. In such cases, the solution should provide a user-intuitive mechanism to enable the AP specialist to handle such invoices.

4. Reporting and analytics – While the ERP or financial system can handle most of the reporting requirements, an invoice automation system provides access to detail that is not available in an ERP system. For example, it can provide up-to-date accrual reports that include invoice data from invoices that are still waiting to be approved and have not been entered into the ERP system yet.

These guidelines will ensure that as the buying organization, you and your supplier community are best served by your e-Invoicing initiative.

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