



White Paper

Introduction to Electronic Invoice Management (eInvoicing)

Introduction

Amid the tougher economic climate of 2009, the need for commercial enterprises and public sector organisations to *drive cost out of the business* has never been greater. Many have cut back already and will continue to do so, but ever mindful that service levels must be maintained. What eludes many of them is a business-transforming solution that will use proven technology to actually *enhance what they do* but *cost less to manage*.

A growing number of organisations have discovered that electronic procurement can make this a reality. Buying from multiple approved suppliers using the same system – with purchase orders (POs) raised and sent automatically – can reduce purchasing costs significantly, while enabling organisations to rationalise their supplier base and avoid wasteful maverick spending. So far, so good.

However, achieving a truly end-to-end, purchase-to-pay (P2P) system isn't so easy. The most difficult part is the *return journey* from the supplier. Firstly, how can an organisation get hundreds, or even thousands, of suppliers to submit their invoices in a common electronic format? And secondly, how can the buying organisation's finance system (whatever that may be) accept these electronic invoices securely, ready for *hands-free* automatic matching and payment. Only then can organisations accelerate the benefits of an electronic P2P system.

This white paper examines the reasons for adopting electronic invoice management (eInvoicing), the challenges and key recommendations for a successful deployment.

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1) What is eInvoicing?

Invoice processing represents a huge cost for many enterprises. Accounts payable teams spend hundreds of hours re-keying, processing and archiving paper-based invoices.

Put simply, eInvoicing replaces these paper invoices with electronic ones. These are then matched, processed and approved electronically. This removes time-consuming paperwork from the billing and payment process, while delivering a host of benefits (see section 5).

Electronic invoicing should not be seen as a standalone service – but rather as the final component of a P2P solution (see figure 1 below), where the whole is greater than the sum of its parts. The integration of data between these components enriches the P2P process.

For example, the information held already on purchase orders, receipts, catalogues and suppliers can be used for effective validation, matching and workflow, which maximises the proportion of invoices passed for payment without requiring the expense of manual intervention.

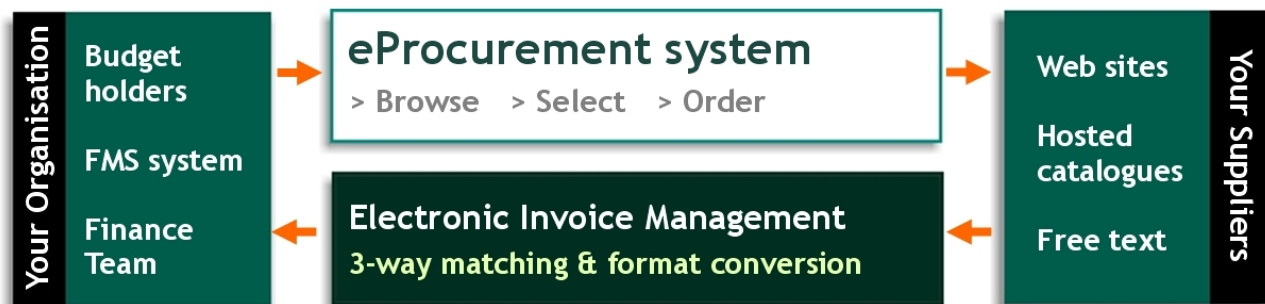


Figure 1: The end-to-end P2P process

Independent market research commissioned by EGS¹ has shown that awareness of eInvoicing is very high among purchasing organisations, yet 80% of buyers are receiving less than 10% of invoices electronically. Although nearly 80% of businesses consider meeting payment times to their suppliers as important, a third of businesses admit to not achieving their targets. And although 70% of suppliers receive at least some of their orders electronically, only 15% send any volume of eInvoices and over 60% don't use eInvoicing at all – they are taking their lead from buyers.

¹ Between May and July 2007, some 150 large suppliers and 25% of local government and universities in England and Wales were interviewed for this research, conducted by Different Market Research Ltd.

2) Why introduce eInvoicing?

The cash savings possible with eInvoicing make headline news. And for good reason. Organisations can reduce their per-invoice costs by 50-60%. One large county council is on course to save £2.5 million by 2012, as the number of invoices it manages electronically increases to 230,000 per year.

Our own independent market research, and that conducted by others, has shown consistently that the highest priority drivers for automating the billing and payments processes are:

- Focusing on managing cash flow.
- Avoiding penalties, duplicate payments and overpayments.
- Integrating purchasing, payables, and finance decision-making and process changes.
- Improving visibility and enforcement of policies and contractual terms.
- 'Closing the loop' on procurement savings.

The main findings in terms of common factors and key issues are:

- Closing the loop on procurement savings is a leading challenge to success.
- Shared service approaches are by far the preferred organisational model.
- Manual methods are still the norm in all process elements.
- EDI attempts are numerous; adoption is very low: 'point to point' is not a cost-effective model.

Public and private sector organisations face particular pressures from central government and shareholders that reinforce these issues. Our own independent research found that the main objectives sought by finance directors focused primarily on cost savings, compliance and avoidance of penalties, whether government or supplier imposed.

The issues of greatest importance to finance directors were:

- The high costs associated with large volumes of paper invoices, routing and approvals.
- The cost of the labour-intensive process associated with invoice status enquiries, managing suppliers' enquiries and dispute resolution.
- The loss of payment discounts and elimination of duplicate payments.
- High invoice entry costs – many people entering data manually.
- The matching and reconciliation process is labour-intensive and costly.
- Exception handling costs, high expenses of not including tax.

3) Key steps for deploying an eInvoicing solution

There are a number of steps to implementing an eInvoicing solution.

Step 1: Presenting the business case

Tools now exist that allow you to calculate an organisation's current per-invoice processing costs with a high degree of accuracy. These tools can then take the existing processes and predict the new cost per invoice. Multiply this by the number of invoice that are processed each year and the organisation can envisage the bottom-line cash savings possible with eInvoicing. This figure can form the cornerstone of any business case.

Deploying an eInvoicing solution requires strong project management and commitment at the highest level within both Procurement and Finance functions. The organisation should have a project sponsor - a senior manager with the backing of the executive to ensure full buy-in across the organisation.

Step 2: Compatibility with financial systems

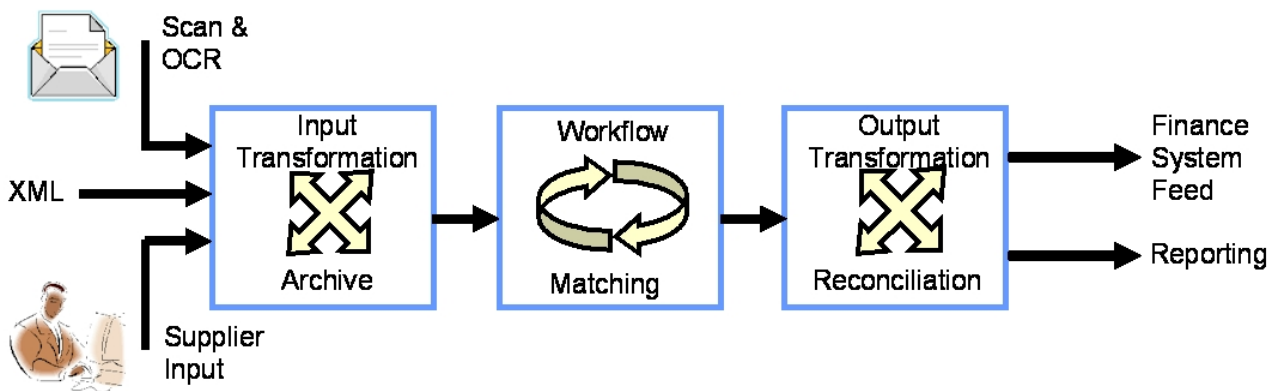
It is essential that any eInvoicing solution can work seamlessly with an organisation's existing FMS (Financial Management System) or ERP (Enterprise Resource Planning) application, whether it uses SAP, Oracle, Agresso or systems from other leading vendors. A compatible eInvoicing solution will help to protect its investment in these systems and increase their functionality.

While many of these systems offer procurement modules that *punch out* to access content from suppliers, the ability to *accept* incoming invoices securely from multiple suppliers presents a major challenge.

However, it's possible for a hosted external eInvoicing solution to work *outside of the organisation's firewall* to gather and submit invoices to its finance system:

- **Presentment:** Suppliers' invoices are received across a range of formats and are then added seamlessly and securely to the finance system in the format it uses.
- **Three-way matching:** The solution automatically matches the invoice number and price against the original purchase order (and goods receipt).
- **Workflow:** Invoices are directed around the organisation to the correct people for swift authorisation or to check anomalies.

Hosted solutions with tried-and-tested connectors are available from leading P2P specialists. Using their skills removes the pressure on an organisation's IT team and ensures a cost-effective integration without the risks of cost and time delays.



Step 3: On-boarding suppliers – the methods

Electronic invoicing is about more than technology. Success depends on supplier participation – and this means engaging with the local sandwich shop or electrician as well as the stationery giant or fleet car provider.

It's vital that eInvoicing is easy for suppliers to adopt. But it's equally important that it costs nothing – and that sending each invoice is **free of charge**. This is a major incentive and only then will the 'critical mass' be achieved that will yield the full benefits for everyone. Other eInvoicing systems may look good on paper – but the fail on this important issue.

Of course, eInvoicing isn't only good for buying organisations ... *it saves time and expense for suppliers too*. For larger suppliers, volumes and savings can be significant. Meanwhile, small businesses will relish being able to create and submit invoices in seconds. More importantly perhaps, given today's economic climate and cash-flow issues, eInvoicing speeds up processes, gives much improved visibility of status, enables speedy escalation and resolution of issues which all results in faster payment.

Maximising the number of suppliers that can submit electronic invoices will enable the organisation to maximise its savings through eInvoicing. Key to this is meeting suppliers at their level of *technological capability*. A flexible approach is required with a choice of three methods suitable for most suppliers.

Method A: 'PO Flip'

- Description: Creation of invoices online using the information from the purchase order to populate the invoice template.
- Scenario: This is a quick and simple way for small suppliers or suppliers with small invoice volumes to create eInvoices which they know will be valid. It's ideal for suppliers that do not have the ability to create electronic invoices.

Method B: Manual upload

- Description: Manually-initiated upload of invoice files (individual or batch) for automatic processing and onward delivery to buying organisations.
- Scenario: Suppliers with billing systems are able to create invoice or billing files with moderate volumes of invoices.

Method C: Automatic XML upload

- Description: Automatically-initiated upload of invoice files (individual or batch) for automatic processing and onward delivery to buying organisations.
- Scenario: High volume suppliers with automated systems, typically already integrated for purchase order receipt.

These three methods will suit the vast majority of suppliers. But a strong case can be made for bespoke solutions for suppliers with particular needs or challenges.

Customised modules for specific suppliers

Buying organisations can also create bespoke modules for specific suppliers. A good example would be for a company that supplies temporary staff. Here, the reconciliation of invoices remains a time-consuming, imprecise manual task leading to delays in payment with high risks of errors and fraud. But it's possible to replace paper-based practices with an integrated, closed-loop process that matches orders, timecards and invoices. The invoice lifecycle can be fully auditable.

Achieving 100% supplier uptake with OCR

Even though the benefits of eInvoicing will be evident, some suppliers will resist change or fail to submit invoices electronically for a variety of reasons. However, invoice-scanning with OCR (optical character recognition) can provide a stop-gap solution until they do. In technology terms, it's a step back. But in financial terms, it's a giant step forward for the organisation, as the cost of scanning (by the eInvoicing provider) is quickly outweighed by the cash savings.

Step 4: On-boarding suppliers – the process

Organisations can work with their eInvoicing provider to engage with suppliers within agreed time-scales. Supplier on-boarding should include the following activities:

Review and planning

- Review expenditure/supplier analysis for the previous year, identifying the number of suppliers to be engaged on a quarterly basis over the next 12 months.
- Identify dependencies for successful eInvoicing implementation.
- Communication with supplier relationship owners within the buying organisation.
- Review the list of suppliers to identify suppliers already engaged for eInvoicing in the P2P solution.
- Confirm contract renewal programme and identify impact on supplier switching.
- Segment suppliers into the three engagement methods (A, B and C, as discussed in the last section) and agree their priority order for adoption.
- Produce a supplier adoption programme.

Engagement

- Communication formally from the buying organisation to all targeted suppliers outlining benefits and policies.
- Supplier engagement workshops for suppliers under each of the three options.
- Follow-up with supplier to confirm interest and next steps.
- Provide guides as appropriate to suppliers.
- Provide guides and processes to the buying organisation for user acceptance testing.
- Test the three options in the training environment
- Handover documents to support suppliers 'go live'.

Step 5: System launch

Once the technical and supplier components of the solution are in place, the organisation can focus on full system deployment.

The eInvoicing provider should be able to provide project management that can include the following:

- Training the accounts team for handling eInvoices
- Planning and preparing for the eInvoicing pilot/launch
- Supporting the internal communications about eInvoicing

4) Benefits delivered by eInvoicing

Once an eInvoicing solution has been fully deployed, it will reap clear benefits, answering many of the objectives discussed in section 2.

Key benefits can include:

SAVINGS

- Cashable savings can be achieved as many full-time positions in accounts payable departments are no longer needed. Staff can be re-deployed to more valued-added roles.
- Invoices can be tracked easily through the system and blockages resolved – so early payment discounts can be achieved and penalties avoided.
- Paper and postage costs have been minimised, while storage requirements can be reduced through e-archiving, replacing the physical space required for invoice storage.

ENHANCED SPEND MANAGEMENT

- Decision-makers now enjoy greater management visibility. The data from eInvoicing can be used for by the buying organisation to leverage contracts and rationalise the supplier base, while reducing off-contract spending.

GREATER SPEED & ACCURACY

- With no re-keying, there's greater data accuracy and less time spent resolving anomalies.
- Invoice processing is faster, thanks to a high rate of automated first-time matches between purchase orders and invoices.

IMPROVED SUPPLIER RELATIONSHIPS

Supplier relationships are enhanced through greater achievement of payment terms (suppliers should also be able to login to check the progress of invoices).

5) Conclusion

With the correct approach, eInvoicing is now *the art of the possible* and not merely an aspiration. A successful deployment still requires a degree of change management and supplier adoption. However, making the process free of charge and available to suppliers of all sizes is essential, with OCR providing a 'quick win' interim step to creating 'critical mass'. Organisations should also remember that PO compliance and best practice is also vital to eInvoicing.

In summary, eInvoicing delivers benefits that are substantial and evident. It's not about *whether* organisations will take the step, but *when* and *how*. With EGS, they can get there sooner, by trusting an experienced partner with the technology and award-winning² customer references to substantiate its position as 'thought leader' in delivery of eInvoicing.

² EGS eInvoicing solution deployed by Essex County Council, winner of the Local Government Procurement Award in the 2009 Government Business (GB) Awards.

6) About eInvoicing with EGS

With around 150 P2P implementations to date, EGS has the experience to help organisations minimise the risks and capitalise on the rewards of electronic procurement. Our eInvoicing solution can be integrated with accounts payable and accounts receivable systems, enabling the secure exchange of invoices between buying organisations and their suppliers.

Our Professional Services team can provide help organisations to implement a successful, end-to-end P2P solution with eInvoicing, ensuring the implementation is delivered on time and within budget. Our consultants will also offer on-going expertise so an organisation's strategy addresses new demands and opportunities.

Independent Consultancy	Implementation	EGS as your P2P partner
● Procurement reviews	● System integration	● Business reviews
● Recommendations	● Supplier on-boarding	● Bespoke development
	● Employee training	

7) Discover more

To find out how your organisation can benefit from eInvoicing, please contact EGS on 0207 539 2828 or email info@egsgroup.com. We can provide case studies and testimonials.

About EGS

EGS is the UK's leading e-commerce service company providing a comprehensive, hosted e-commerce platform to its buy-side and supply-side customers. The EGS service automates and reduces the costs and timescales associated with the procurement-to-pay lifecycle, delivering realisable cashable savings to its users. Over 100 major UK organisations are already integrated with EGS, achieving the benefits of:

- End-to-end automation of the processes from e-sourcing, through eProcurement to eInvoicing
- Access to 20,000 registered suppliers of products and services
- Comprehensive procurement intelligence and management information

The EGS technical platform is pre-configured to integrate with all of the major finance and procurement systems in use with UK-based businesses. The procurement administration in each buy-side customer organisation is able to add and delete their own suppliers and commodity catalogues, or enable access to generic products and services already available. The creation, authorisation and transmission of every requisition, purchase order, goods receipt and invoice is completed using the tools and routing optimised for the specific requirements of each EGS customer.

During 2009 EGS will process approximately £1 billion of customer orders, corresponding to over one million transactions. Extensive reporting tools are available to mine the transaction data for procurement intelligence and management information enabling better sourcing and more efficient buying, and thereby engaging the purchasing organisation in a cycle of continuous improvement.

- For more details, visit **www.egsgroup.com**

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