The Benefits of E-Invoicing
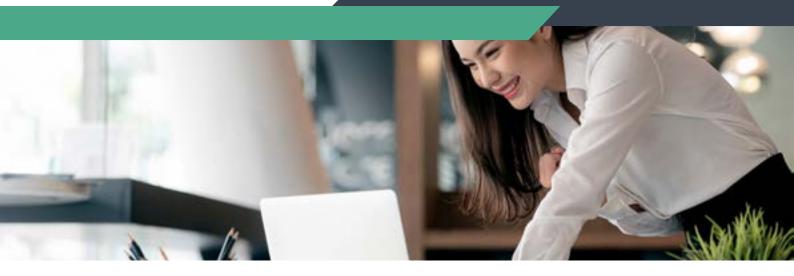
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Introduction

Electronic invoicing (e-invoicing) is becoming increasingly popular around the world. Indeed, within the B2B and the B2G (business-to-government) sectors, it is gradually replacing both traditional paper invoicing and the more recent PDF invoicing.

What is more, we are seeing increasing numbers of countries introduce mandatory e-invoicing for the B2B sector. These circumstances call upon companies — particularly those with international operations and trade relations with foreign companies — to address the topic of e-invoicing without delay.

To do this, those companies need software applications that can ensure compliance in both the public and the private sectors. This white paper provides a general introduction to the topic of e-invoicing, explains the factors driving its emergence, outlines the pertinent technical transmission methods, and presents practical deployment scenarios.

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01 What Exactly is E-Invoicing?

In its most rudimentary form, the term "e-invoicing" used to refer to the process of sending invoices in electronic form (usually in the form of a PDF document) by e-mail. Here, the recipient would tend to process the invoices much like classic paper invoices, that is, print them out and file them as paper documents. And, indeed, this process is still commonplace in many companies today.

However, technological advancements have brought about changes in this area. According to the consensus today, the simple process described above no longer constitutes e-invoicing because, per the new definition of the term, a PDF invoice alone is not an e-invoice. To qualify as an e-invoice, the document in question must be issued, transmitted and received not only in a structured data format, but also in a way that enables the recipient to process the invoice automatically and electronically. Only if a document meets these criteria and thus qualifies as an electronic invoice per the modern definition can the term e-invoicing be applied.

Creating e-invoices in one of the required formats necessitates special software. This software facilitates the creation of e-invoices within an ERP system and the subsequent issue of those invoices via one of the applicable transmission methods, for example e-mail or Peppol (more information on transmission channels is provided below). There are also various third-party solutions that can be used for transmission.

E-invoicing solutions take not only the debtor side but also the creditor side into account, and therefore contain systems for receiving and for processing e-invoices. On the recipient side, e-invoicing solutions automatically integrate electronic invoices into the corresponding ordering, accounting and processing systems. And it is in the automated receipt and subsequent processing of invoices that e-invoicing harbors so much potential in terms of cost savings.

An e-invoice is characterized by its ability to be created, exchanged and processed without the use of manual data entry on both sides of the process (both the buyer and the supplier side).

What does this mean in detail? To qualify as an e-invoice, the invoice document must be a machine-readable record. The format most commonly used for creating machine-readable documents is XML, a format developed and optimized specifically for automated document processing. The XML data set of an e-invoice contains the general mandatory data stipulated by the applicable legal provisions.

Understanding the invoicing process
Invoices are among the most important documents in a business relationship between two parties. Because invoicing takes place between these two parties, the invoicing process has two sides: the supplier side and the buyer side. If you are the supplier in the relationship, you sell your goods or services, send out invoices and, as the last step, record the corresponding incoming payments. This process is called the order-to-cash process. If you are the buyer in the relationship, the process works the other way around: You order goods or services, receive an invoice, and pay the supplier accordingly. This process is called the purchase-to-pay process.

The invoicing process therefore tends to involve multiple departments on both the supplier side and the buyer side. It also presents both sides with a variety of specific challenges, some of which overlap with each other. Among these challenges are laborious manual data entry, long processing times, opaque procedures and delayed payments.

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By restructuring traditional invoicing and streamlining the processes of issuing, sending, receiving and processing an invoice, e-invoicing offers numerous benefits on both the supplier and the buyer side. These include reduced time expenditure, lower costs and fewer errors. The many benefits of e-invoicing have been quantified in a variety of KPI-based studies.

Where the outbound invoicing process (the supplier side) is concerned, the benefits tend to be strategic and process-specific in nature. Here, according to the studies, e-invoicing can bring about a 40-50% reduction not only in lead times, but also in transactional errors and in the invoice coordination workload. It can also bring invoice payments forward by around 20% (impacting financing costs accordingly). Further benefits include higher customer loyalty and lower postage and material costs.

On the invoice receiving side (the buyer side), the benefits are process-specific in nature. Here, the savings in terms of lead time are at 50-60%, and therefore even greater than on the supplier side. Add to this 40-50% fewer transaction errors and a reduced invoice coordination workload due to lower numbers of queries. The studies also recorded significant increases in transparency (beneficial for monthly and annual financial statements) and improved early payment discount utilization (in countries where discounts for early payment are offered).

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02 Factors Driving the Growth of E-Invoicing

Recent years have seen e-invoicing gain momentum across the world. More and more companies are recognizing the many benefits of the practice and, as a result, transforming their invoicing processes by introducing digital procedures. The reasons for companies' eagerness to implement e-invoicing are manifold. Some of the most important reasons are outlined in the following:

1. Advancing digital transformation

The term "digital transformation" refers to the process of using digital technologies to create new (or change existing) business processes, work cultures and customer experiences. Companies engaging in digital transformation want to meet changing business and market requirements, and to put themselves in a position to design new business models using digital technologies. In a nutshell, digital transformation is about restructuring business operations and maintaining competitiveness in the digital age. It is a phenomenon that has already resulted in fundamental change across many business processes, with formerly manual processes having been redesigned to become primarily digital. Common benefits of this include higher efficiency, reduced costs, improved business continuity, and optimized reliability and compliance.

Invoice processing is among the business areas to have been most profoundly impacted and reshaped by digital transformation. The many steps along the invoice processing chain used to require a great deal of manual labor, after all: invoice data had to be manually transferred from the paper documents into an ERP system or manually compared with the corresponding purchase order data.

Today, tedious and error-prone workflow steps such as these can be automated with digital solutions. The benefits that companies can reap by shifting from manual to fully digital invoice processing are manifold and extend far beyond the confines of their accounting departments. Indeed, the move to e-invoicing looks set to be the next progression in the corporate world's quest to capitalize on the potential offered by digitalization and automation.

2. Compliance with government regulations

In some countries, the need to comply with a continual flow of new regulatory and legal requirements is another factor driving the adoption of e-invoicing. Most governments around the world have established practices for the collection of sales tax (VAT) and goods and services tax (GST). These tax types, while they quickly established themselves as the most important transaction taxes in the world, are a major source of tax fraud.

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After all, by not properly declaring their total transaction volumes, companies can avoid paying some of the taxes they owe. And the more companies avoid paying tax, the greater the value-added tax gap. In many countries, governments have recognized that switching to electronic invoicing can be an effective means of reducing tax fraud. Italy and Portugal, for example, have made e-invoicing mandatory in the B2B sector, and other European countries are soon set to follow suit (see chapter 5: E-Invoicing Around the World). Due to its digital nature, e-invoicing serves to increase transparency, traceability and compliance within the invoicing process.

Back when e-invoicing mandates first emerged, they tended to apply only to B2G transactions (transactions between companies and government entities), and only in a few countries. Since then, more and more countries have introduced mandatory e-invoicing, and extended its scope to also apply to B2B transactions.

This has led to increasingly complex invoicing processes, especially for international companies that must ensure legal compliance across their various locations. But e-invoicing has also brought benefits, not only for governments but also for businesses. These include clearer taxation procedures and increased transparency within B2G and B2B invoicing.

3. Cost savings

The switch to electronic invoicing, as is the case with most process automation, usually results in significant cost reductions. The software needed to implement e-invoicing therefore quickly pays for itself, mainly by doing away with the need for manual work and driving up efficiency.

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03 The Benefits of E-Invoicing

For most companies, the principal goal of adopting e-invoicing is to lower costs. But the benefits of e-invoicing do not end there. By digitally transmitting documents and integrating them into upstream and downstream business processes, e-invoicing enables companies to not only forward invoices to other IT systems, but also process them in those systems — all within one continuous workflow. Replacing traditional manual invoicing and invoice processing with e-invoicing therefore makes sense on multiple levels.

Another look at the cost-saving benefits

For the sender, e-invoicing does away with the costs of printing, copying and posting a paper invoice. For the recipient, e-invoicing accelerates invoice processing. This means that, where discounts for early payment are offered, the deadlines for those discounts can be better met. It also means an end to reminder fees and copying costs. Moreover, because it renders manual data entry unnecessary, it saves on the personnel costs that this monotonous work incurs. Accounting department employees can instead focus on value-adding tasks such as monitoring and managing financial KPIs. This way, they can play a real role in driving their company's long-term success.

Fewer manual tasks, greater accuracy

The task of manually transferring invoice data from paper documents into IT systems is inevitably prone to clerical errors. Indeed, the error rate here is generally assumed to be one percent, which, if the number of invoices processed is high, means a significant amount of incorrect data entering the ERP system.

The electronic recording and fully digitalized processing of invoices within the accounts payable process can bring this error rate down to almost zero.

The only task that then needs performing by humans is that of validating whether the data automatically transferred has been correctly received. Many companies seek to eliminate human involvement altogether and to achieve as high a percentage of touchless posting as possible (with touchless posting, all processing takes place in the background, with no human assistance). But no matter the specific degree of automation, the objective of e-invoicing is invariably to bring about greater accuracy and speed across all invoice processing steps.

Greater efficiency thanks to process automation

Automating processes based on a workflow system results in increased efficiency and allows existing resources to be better utilized. It turns accounts payable from a department for manual back-office processes into a strategic unit able to deliver financial KPIs and ensure faster payment cycles.

Time-saving benefits

Manually processing and forwarding incoming paper invoices is a time-consuming, labor-intensive process. It often takes several days for an incoming invoice to be settled and entered in the books. During this time, the invoice gets passed around various internal departments, requiring approval by different people. Often, the invoice's exact location at any one time is unknown. So if queries from the supplier come in, responding to them can become very time-consuming. E-invoicing does away with all these steps, accelerating invoice processing dramatically.

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Utilizing early payment discounts (dynamic discounting)

By accelerating invoice processing and eliminating manual tasks (e.g., data entry, validation, transmission of invoice data to an ERP system), companies can pay their incoming invoices sooner and take advantage of early payment discounts or dynamic discounts. In German-speaking countries, granting a discount for early invoice payment (known in German as Skonto) has long been common practice. But it is unknown in most other countries. The practice of dynamic discounting, however, is enjoying increasing popularity around the world, particularly in the U.S.

Dynamic discounting is in principle a lot like German Skonto discounting in that it grants discounts for early invoice payment. But, as its name suggests, dynamic discounting is more dynamic, more flexible. The practice allows for the discount amount and payment term to be chosen at will. It also allows companies to offer different discount levels. The initiative to apply dynamic discounting can come from the supplier or the buyer. The discount offer itself can apply for the long term or for a limited term; it can even apply only to one single invoice. The concept therefore requires flexibility. To be able to offer quick payment in return for a discount, you need to have efficient internal processing. If incoming invoices pile up and payment is pushed too close to the deadline, you cannot respond flexibly and therefore cannot meet the conditions required for dynamic discounting.

Increased transparency; improved cash management

Implementing e-invoicing systems necessitates the automation of downstream processes by means of workflow solutions. Such solutions increase transparency and create the basis for better cash management. For example, thanks to the invoice receipt book integrated into the workflow software, users can check the status of any invoice. This renders the accounts payable process transparent for all parties involved. It also allows archived documents to be accessed with just a few clicks. The result: An improved understanding of outgoing payments and a clear overview of which invoices have been paid and which are awaiting payment. This facilitates more accurate forecasting and planning because assumptions can be made based on real-time information.

Higher security

Automated workflows improve process reliability. Based on clearly defined procedural steps, they enable systems to automatically execute tasks, thus doing away with the need for manual labor. This in turn helps to protect against fraud.

Improved customer/supplier relationships

Shorter payment cycles, fewer inquiries about unpaid invoices, fewer payment disputes, fewer invoice processing errors... Outcomes such as these can help companies significantly improve relations with both their customers and their suppliers.

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04 Transmission Channels for E-Invoices

E-invoices can be transmitted via various channels, including e-mail, online portals, and the international Pan-European Public Procurement OnLine (Peppol) network. The latter channel and the AS2 format have become particularly well-established as means of EDI transmission.

E-mail

Most companies still tend to send out e-invoices via e-mail. According to a member survey conducted by the organization "Deutschsprachige SAP-Anwender-gruppe e. V. (DSAG)" [German-speaking SAP User Group] in mid-2021, around 52 percent of German companies send their e-invoices out by e-mail.

This is indeed the easiest, most obvious option. You can attach an XML invoice to an e-mail and send it just like you can a PDF document. However, this form of transmission is known to be prone to security issues as regards the integrity and authenticity of the transmitted documents. Online portals constitute another possible channel.
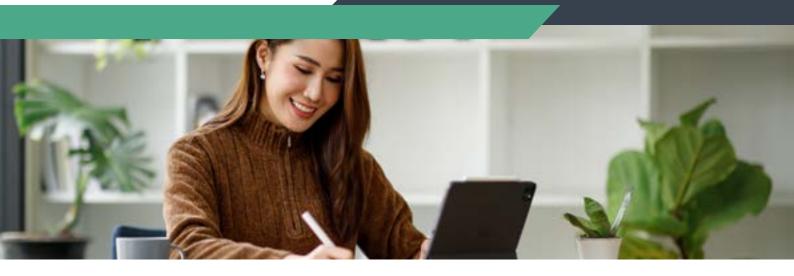
Online portals

In some countries (see chapter 5: E-invoicing Around the World), companies are legally required to send their e-invoices via online government portals. To do this, companies must register with a central tax authority platform. They must then send their outgoing invoices to the tax authority via a web service. The authority checks the invoices to ensure tax compliance and, after validating them, sends them on to the actual recipient.

There are also, in addition to the government portals, a variety of third-party portals by which to transmit e-invoices. In fact, the option of setting up an online e-invoicing portal is becoming increasingly popular among companies with high volumes of purchase transactions. This is because it is an effective means of engaging in electronic communication with smaller suppliers not in a position to set up a 1:1 connection with their client using B2B integration (see below) and direct EDI (Electronic Data Interchange) traffic. Moreover, an online portal offers the benefit that it can be integrated into the company's invoice processing system, enabling status data and other information to be communicated to suppliers.

Using a portal primarily benefits the buyer side in that it enables the buyer to, using suitable software, automatically transfer invoices from the portal to the buyer's invoice processing system. Smaller suppliers without the appropriate technical infrastructure must continue to manually enter their data into the portal. But even if the latter is the case, this system is still able to detect any errors caused by incorrect transmission, and to correct them in the portal, not in the buyer's ERP system. Nevertheless, any process that involves the manual uploading of invoices onto a portal cannot qualify as fully automated invoicing. This approach is therefore unsuitable in countries that use the clearance model for e-invoicing.

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B2B integration

Another e-invoicing approach involves the electronic integration and automation of business processes between partners (B2B integration). Here, the suppliers automatically create and send electronic invoices, while the buyers receive the digital invoices, automatically process them and transfer the corresponding data to their ERP or accounting system. This process eliminates the need for data entry on both sides and, in doing so, significantly improves the accuracy and integrity of the data.

But integrating on a B2B level and configuring the necessary technical infrastructure is quite complex. It requires data mapping, for example, to ensure alignment between the different file formats on the buyer side and supplier side. Most companies therefore have the set-up process carried out by service providers. So far, the practice of exchanging e-invoices via a B2B integration has only been adopted in certain industries, one example being the automotive industry.

Peppol

The Peppol network is predicted to be the e-invoicing transmission channel of the future. The objective of the Peppol initiative is to advance the exchange of electronic documents within the procurement process. With "BIS Billing 3.0", it created a new e-invoicing standard that national authorities can adapt to suit the respective country. And with the Peppol network, it created a means of enabling affiliated organizations to securely exchange business documents and send electronic invoices to businesses and government agencies. Peppol can be compared with the process of sending registered mail with a return receipt. Already in use around the world (in and outside the EU), experts believe it is set to become the preferred method of sending documents.

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05 E-Invoicing Around the World

The implementation of e-invoicing regulations has been on the increase since the early 2000s, with governments around the world, including those of Argentina, Brazil, Mexico and Chile, moving to regulate the e-invoicing process. In the beginning, e-invoicing regulations applied primarily to public sector purchases. EU Directive 2014/55/EU, for example, requires public authorities to be able to receive and process electronic invoices.

More recently, the scope of e-invoicing regulations has begun to expand beyond B2G activities to include B2B transactions. Italy became the first country to require e-invoicing for all B2B invoices on January 1, 2019. Since this date, the machine-readable XML format FatturaPA has been required for all invoices issued, regardless of whether created for B2B, B2C or B2G markets. They must also be transmitted via the state-run exchange system SdI (Sistema di Interscambio). Another country to have mandated e-invoicing for the B2B sector is Portugal, with other countries (Belgium, Croatia, France, Germany, Poland, Slovakia, Spain) on the verge of taking this step.

In Hungary, e-reporting, though not yet e-invoicing, is obligatory. Here, the option of sending e-invoices was integrated into the e-reporting infrastructure at the beginning of 2021. In Singapore, there is government funding and an incentive scheme for companies that sign up with InvoiceNow, a program by which the government seeks to promote e-invoicing and regulate both the invoice format (XML) and the invoice transmission channel (PEPPOL network).

The push to adopt e-invoicing can thus be seen in many countries around the world, with numerous corresponding initiatives implemented in both the B2B and B2G sectors. However, the formats (XML) and transmission channels (portals, e-mail, etc.) stipulated for e-invoicing varies considerably from country to country, a circumstance that can prove complex for companies with international operations. But, with no single world standard set to become established in the near future, it is a circumstance that is unlikely to change.

Companies must therefore rely on software solutions able to process invoices across all formats and standards commonly used around the world (XInvoice, ZUGFeRD, PEPPOL BIS Billing 3.0, Factur-X and InvoiceNow). Automatically retrieving machine-readable XML-formatted invoices from an e-mail inbox or e-invoice portal, such solutions support portals based on PEPPOL. They also prompt the transfer of e-invoices to ERP systems for further processing. With their help, companies operating internationally must neither deal directly with issues connected to countries' various e-invoicing regulations, nor implement any software for fulfilling those regulations.

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06 Best Practices for Your E-Invoicing Success

Companies' relationships with their suppliers vary greatly. From some suppliers, a company may receive goods and services (and, by extension, invoices) on a regular basis, and from others, only very rarely. In terms of factors such as company size and technical equipment, there is also considerable variation to be found among suppliers. Therefore, approaches to e-invoicing may vary greatly from supplier to supplier.

Companies seeking to implement e-invoicing with as many suppliers as possible should therefore actively enter into dialog with their business partners. Indeed, providing suppliers with assistance will sometimes be key to ensuring that the e-invoicing process works optimally for both sides.

For smaller suppliers that have little business process automation in place and send invoices only rarely, the best option is likely to be a portal solution into which they enter their invoicing data independently.

Tip 1:

It therefore makes sense to approach large and medium-sized business partners with higher invoice volumes first. They are unlikely to want to manually enter data into a portal due to the effort this involves. The first step here should be to help the suppliers set up systems by which to send e-invoices. This is after all where the greatest optimization potential lies, especially for the invoice recipient.

Tip 2:

Begin by putting together an FAQ catalog on the topic of e-invoicing. This will make it easier for suppliers to familiarize themselves with the topic, which in turn will result in fewer queries later on. The following eight questions cover the most important points:

Questions about using the e-mail transmission channel:

- To which e-mail address should the electronic invoice be sent? Is it the same address as for PDF invoices, for example, or is there a separate address?

- How are attachments dealt with? These can be embedded in the XML file or be sent as an additional e-mail attachment. Do you have a preferred channel, or do you allow use of both?

- Can multiple invoices be attached to one e-mail or should each invoice be sent in a separate e-mail?

- Are there naming rules for attachments being sent by e-mail? For example, must "invoice" always feature in the file name of the invoice and "attachment" always feature in the file name of the attachment?

Questions about using a portal as a transmission channel (if you offer this):

- Do you also offer an upload function for electronic invoices that have already been generated? Or can they only be generated in the portal by manual data entry?

Questions about the invoice file:

- Which invoice format do you prefer?

- Which versions of each format do you support?

- Which specific information should go in which field? A German XRechnung, for example, has around two hundred fields. While many of these fields are predefined in terms of content, some of them are free text fields. You should coordinate with your suppliers on what the contents of these should be. Ask them questions such as, "Should the 'Service period' information be entered in the 'Invoice comment' field?"

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Ready For E-Invoicing with xSuite

E-invoicing is on the rise around the world, driven by clear economic benefits and, in most cases, by government mandates enforcing the practice. Companies seeking to implement e-invoicing need appropriate software solutions from expert providers. This is where xSuite Group comes in. A software manufacturer with clients all over the globe, xSuite Group specializes in the automation of document-based business processes using SAP.

Offering deep expertise in the field of automated invoice processing, xSuite is ideally positioned to provide its clients with e-invoicing support. With the company's own solution "xSuite eDNA", companies are optimally prepared for the requirements of e-invoicing. The solution enables conversion into a wide range of e-invoice formats and transmission via the Peppol network. This means that all e-invoice requirements are covered: creation*, transmission and processing. xSuite eDNA is a cloud-based input and output channel for e-invoices. The convenient connection to the ERP system is made via APIs.

xSuite eDNA automatically captures data from received e-invoices and enters it into the appropriate fields in your ERP system, both at header and field level. Additional information is also passed on, such as the date the e-invoice was received.

All data is checked against the master data maintained in your ERP system, enabling automated vendor recognition. You can then process the e-invoice conveniently based on the same xSuite workflow you use for paper, PDF or other invoice formats.

About the xSuite Group

xSuite is a software manufacturer of applications for document-based processes and provides standardized, digital solutions worldwide that enable simple, secure, and fast work. We focus mainly on the automation of important work processes in conjunction with end-to-end document management. Our core competence lies in accounts payable (AP) automation in SAP (including E-Invoicing), for leading companies worldwide, as well as for public clients. This is supplemented by applications for purchasing and order processes as well as archiving. Delivering everything from a single source (software components and services), xSuite solutions operate in the cloud, on-premises, or in hybrid scenarios. We are proud of the superior quality products we offer, proven by the SAP solutions and deployment environment certifications we regularly receive. With over 300,000 users benefitting from our solutions, xSuite processes more than 80 million documents per year in over 60 countries.

*The creation of e-invoices will be available from mid-2024.

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