

Best practices for electronic invoicing

Basware Business Transactions

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1 Executive summary

Labor-intensive manual accounting systems and a deluge of paper-based invoices have plagued finance departments for decades. To keep up with the volume of invoices, Accounts Payable teams typically respond by increasing headcount. But turning Accounts Payable into one of the highest cost functions in a finance organization is not a solution.

Moreover, departments that rely on manual systems are finding that adding staff still does not resolve the inherent problems of unrecorded liabilities; duplicate, inaccurate or unauthorized payments; and misappropriated cost allocations. In addition, these departments are struggling to meet their organizations' basic need for visible, timely, and accurate financial reporting and control. And compounding the problem, the manual systems they use make it difficult, if not impossible, to address the critical issues at the heart of compliance.

Faced with pressure to reduce costs, comply with strict process controls, and provide accurate and timely financial reports, more and more organizations are looking to unleash the benefits of automating their Purchase to Pay lifecycles. Some organizations have already implemented invoice processing solutions, but this on its own is not enough. To truly realize the full benefit, companies must automate their entire end-to-end Purchase to Pay process.

This white paper discusses the various strategic and tactical considerations involved in automating the Purchase to Pay lifecycle. It outlines the key stages involved in moving to an automated solution and the benefits to be derived. And as solutions need to be as individual as the organizations that implement them, rather than providing a prescriptive answer, this paper serves to encourage debate while addressing the key issues that need to be considered.

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2 A perspective on electronic invoicing

Seeking streamlined processes and better customer satisfaction, many European companies are looking at electronic invoicing as a potential solution. Various studies have proven that replacing paper invoice processing with an electronic invoice provides both short- and long-term gains. Unfortunately, the invoicing market is extremely diverse and each market seems to have its own preferred way of operating. This document provides perspectives on the various players, interest groups, and standards to make it easier for organizations to implement electronic invoicing.

2.1 The history of electronic invoicing

One could claim that electronic invoicing is not a new era; rather only a continuation of EDI development.

This statement though true, is only partially so. Indeed, as part of the implementation of an ERP system, large corporations have looked into EDIFACT as a tool to reduce the need for manual work in their supplier processes. Yet, they have come to realize that with the high implementation costs of EDIFACT processes, a cheaper alternative is needed for everything but key production processes. (Despite its limitations in the production processes, EDIFACT is presently seen as the best alternative for high-volume transactions and tight supplier-to-buyer process integration.)

In the early 2000's, there were several attempts to find a cheaper alternative to paper invoicing. This included EIPP (Electronic Invoice Presentment and Payment), which used the Internet to provide an electronic invoice on the supplier's web page that the buyer could access and pay. Although appealing to suppliers, EIPP was never successful, perhaps because it was unable to provide immediate cost savings for the invoice recipients, i.e., the payers.

More recently, ERP (Enterprise Resource Planning) platforms have offered an excellent opportunity for financial departments to implement paperless invoice process handling systems. And in fact, a majority of large organizations have implemented this approach, currently scanning massive amounts of paper invoices (from 100,000 up to several million per year). However, many financial departments soon noticed that scanning was really only an intermediate solution in a drive to make the entire process electronic.

As they looked to replace scanning processes, some customers implemented point-to-point connections with their suppliers. This led to dissatisfaction because only a small percentage of their total invoice volume was converted into electronic invoices. Additionally, the implementation and maintenance costs for point-to-point connectivity were relatively high when compared to the benefits gained.

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Simultaneously to the point-to-point connections, some customers chose to implement a hub model, where a traffic consolidator routes traffic from senders to any receivers. At first, this approach suffered from problems in connecting various standards and platforms together, however it has proven to be a winning combination for the following reasons:

- For any one sender or receiver, the connectivity need only be built once, making this approach the most cost-effective method.
- Several hubs can be connected to build an extensive, interoperable network to further enhance the reach of any receiver or sender and enable virtual connections between tens of thousands of companies' networks.
- Hubs enable more extensive service levels and customer service compared to in-house point-to-point management systems.
- Hubs can also provide valuable services like VAT (value added tax) compliance checking, format conversions, and guaranteed delivery.
- New customers are automatically added as potential receivers and/or senders for all existing invoicing customers, offering immediate wide-range coverage for any organizations joining the hub.

Regardless of these advantages, the hub model's ability to serve a consumer market is somewhat limited. This is due to the fact that very few hubs can address consumers as invoice receivers. As a result, in some markets, banks and related players have started enabling the invoice senders to send invoices directly to consumers' Internet banks. Recognizing the need for the European market to offer better banking services to consumers (and companies), the EU (European Union) launched an initiative called SEPA (Single European Payment Area). The aim for this initiative is to help the market develop standards for better and lower cost European banking services. One of the banking services defined in SEPA is a payment request that will provide an ideal vehicle for electronic invoicing.

2.2 Invoicing standard

The rapid development of invoicing applications has led to a multitude of national standards. This abundance of offerings slowed down market development by confusing customers and unnecessarily complicating the process of connecting senders and receivers together. Today, almost all of the electronic invoicing standards are now based on the XML language, making it fairly easy to convert an invoice from one XML standard to another. Luckily, the hub model eases this pain by making the standards issue a headache for the hub operator, rather than a single company.

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The EU workgroup has defined the guidelines, effectively removing the barriers to electronic invoicing (in VAT directive 2001/115/EC). Furthermore, the EU has defined ***the minimum data content requirements of an invoice*** that each member state has committed to implement locally. This definition provides a good starting point for connecting any two standards together. It also includes both the sender's and receiver's organization numbers (EU VAT code) to enable basic, straightforward addressing of an invoice from sender to receiver.

Additionally, the EU has defined ***a high level approach to electronic signatures***, which has been amended by local legislation in many countries. An electronic signature is needed to ensure that the data is transferred unmodified from the sender to the receiver. This is accomplished by signing each invoice separately or on hub platforms, by ensuring that the connections and processes are so secure that they do not allow invoice data manipulation.

Neither the EU's minimum data content, nor the electronic signature recommendation has been developed with an eye towards cost savings. As a result, to fully utilize the cost-saving potential of these capabilities, many customers must add additional fields including:

- Row-level posting data such as cost center and account information for automated posting.
- Additional organizational unit data such as business unit ID for automated posting.
- Row-level order data reference for automatic matching.
- Email address or similar ID to automatically send the invoice to the first receiver without pre-processing.
- Transferring the original (and signed) image as part of the invoice.

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3 Invoice sender vs. receiver perspective

The perspective on invoicing varies greatly based on whether it is being looked at from the angle of the sender (seller) or receiver (buyer).

The potential for immediate internal cost savings is much greater for the receiver than the sender. That is because the receiver is looking to improve internal processes for handling invoices. These process improvements include, but are not limited to, faster processing times, faster payment cycles, better discounts, and savings in scanning and non-essential invoice handling personnel costs. However, it should be noted that electronic invoicing does provide senders with exceptional opportunities for improved customer satisfaction, better credit collection, and above all, lower customer churn.

Whether sender or receiver, both gain from improved staff satisfaction because converting from a manual to an electronic process usually frees personnel, such as those in accounting, to refocus their efforts on activities for business support.

4 Best practices in implementing e-invoicing – recommendations by Basware Einvoices Ltd

Based on vast experience in working with a wide range of customers, Basware Einvoices Ltd has developed a set of best practices to assist companies in selecting and implementing an invoicing solution for various business needs. Overall, the approach your company takes should reflect the position (sender or receiver), the needs of corporate customers/suppliers, and the geographical focus (local/European/global). Regardless of the position you take, the cost savings are ultimately determined by the amount of invoice volume you can convert from manual to electronic.

Therefore, a successful implementation project should have two goals:

- Initially, enable electronic invoicing at your company.
- Have a plan with your chosen partner to drive up electronic invoicing volumes.

Many invoicing projects focus on implementing electronic invoicing yet overlook this partnering plan to increase invoicing volumes. Because of this oversight, benefits gained are often minor compared to what their full potential could be.

4.1 Frequently asked questions

To help you choose the right e-invoicing approach, this section provides a set of frequently asked questions that can guide companies in the initial strategic decisions and discussions needed for implementing electronic invoicing.

We have offers both from hub operators and houses offering point-to-point connections. Which approach should we choose?

The hub operator model allows you to build a connection once and then use that connection to send or receive invoices from companies connected directly to your hub operator or their partner operators. You should only consider point-to-point connectivity for your internal invoices if you have a capable internal IT organization that can manage the maintenance of a production environment for you. For your customers and suppliers, point-to-point connectivity limits your ability to reach a high penetration of electronic traffic and requires a lot of manual operations from your own organization, such as managing connections, including passwords, user ids, standards, etc.

How do we choose the best operator for us?

You should base your primary decision on the expertise and reach of your network as well as your partner's network. In addition, it may be beneficial to choose an operator that can offer you the ability to add the additional fields described earlier in this document (See section 2.2),

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particularly the ability to transfer the invoice image. Do not be influenced by the operator's long customer list, instead ask for amounts of traffic and active senders and receivers. Your decision should also consider the service level to ensure that your hub operator will still be in business after a few years.

What should we do with the EDI?

EDI (EDIFACT) is most likely to be the major standard for connecting production systems to each other. To support further development of EDI connectivity, many customers will want to convert EDI invoices into XML invoices. As a result, you should ensure that your chosen operator can handle this conversion for you.

We already have an Invoice Automation system with scanning in place. Can we convert all the invoices into electronic?

It is unlikely that all small suppliers will be converting and sending electronic invoices anytime soon. That means that scanning will remain in operation for quite a few years. However, as many of the hubs have connected scanning centers to their networks, you may be in a position to more easily switch your scanning volumes from one scanning vendor. If you use an in-house scanning organization, you would be able to reassign some of the personnel into more productive activities once the volume of electronic invoicing increases.

Many of our invoices are to consumers, what should we do?

If you have customers mainly in Sweden or Finland, some of the banks may be able to help you. For Europe, you will have to wait a few years until the SEPA payment request system evolves and starts offering a method for sending transactions to pan European consumers. If your company is operating on a multi-national basis, the SEPA payment request system is certainly worth investigating further.

We have heard of OIOXML, TEAPSS, UBL2, E2B, Finvoice and other standards – which one is the right for us?

The standards are mainly a concern for your hub operator, which is responsible for ensuring that your system connects seamlessly to other systems. In addition, there are limitations within standards. For example, if a sender is using E2B and Finvoice, they do not allow the receiver to receive a full invoice image.

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We would like to send or receive the electronic invoice as an email – why can't we do that?

Currently, electronic invoices are sent in a closed network where the sender and receiver are authenticated by their hub operator. Opening the hub to send or receive email invoices increases the risks for spam and viruses. Therefore, many hub operators prefer to keep their networks closed, similar to many money wire transfer networks, which are also closed.

How do I maximize the conversion from paper to electronic?

You should draft a plan with your chosen hub operator to work with your customers or suppliers to ensure increased volumes for electronic invoices. Having suppliers with both tools and experience in this kind of project is a must to bring you rapid return on your investment, that is, the initial investment enabling your company to send or receive electronic invoices.

I would like to start with internal invoices – can I do that?

Yes, internal invoices are an excellent way to start investigating the full potential of electronic invoicing. And because your end solution should not differ from what you will offer to customers or suppliers, you should consider the same hub approach for internal invoices as well.

Our IT department wants to generate the XML invoice and they say that they can transfer that to receivers.

This is not advisable unless your IT department is willing to start providing the invoices in all the XML variations that are currently used by your partners and customers. Keeping up with the standards on various markets is a full-time job for anyone specializing in electronic invoicing. Additionally, authenticating users requires someone to manage the user ids and passwords and provide a helpdesk. These would be tasks that your IT department would have to assume in-house. While it is doable, many hub operators can perform these tasks more cost-effectively and reliably for you.

We would be ready to receive electronic invoices, but our suppliers cannot send to us?

Some operators provide a supplier activation program that will help suppliers in their sending efforts, helping you increase your electronic invoice volumes and enjoy additional cost savings.

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What do we do, our ONE ERP strategy does not allow us to have a platform other than SAP?

Choosing an electronic invoicing operator is comparable to choosing a telecommunications or data communications operator. Sometimes, the operator provides the interface software, but the choice is really about choosing a service in use, rather than selecting software. Most major hub operators do support SAP installations for sending and receiving electronic invoices.

We have a chosen IT supplier that we would like to use for this project, can we use them for implementing the hub?

In most cases a hub operator has methods for working with your chosen IT supplier in implementing the initial connectivity. If your chosen IT supplier is not already a hub operator, you should always insist on having a hub operator involved with the project right from the start. Remember, electronic invoicing is about building an invoicing network, which the hub operators already have available for you and your partners.

How much does it cost?

For BasWare Einvoices, the target for sending and receiving electronic invoices is that it should not cost more than a postage stamp split in two with the sender paying half and the receiver paying half. Additional costs will come from a one-time connection fee and implementation fees, which are dependent on your requirements and your IT systems. These fees typically amount to a few thousand euros each.

We would like to start sending electronic invoices, but we cannot justify the costs due to the small volume of suppliers requesting it?

Sending electronic invoices is not only a cost-saving opportunity; it is also an advantage that will improve your competitiveness. The number of receivers is growing all the time. Working with your operator, you will likely find a number of interested companies. This effort will enable you to justify the cost and also provide immediate benefits through the volume generation plan developed with your chosen hub partner.