



Optimizing Your Accounting Process with Electronic Invoicing

Competitive pressures continue to force companies worldwide to seek further cost efficiencies and to improve visibility into financial performance. Back-office functions such as procurement, accounting and human resources are often areas in which significant cost efficiencies can be achieved through automation of routine, administrative tasks. Many organizations have streamlined and digitized procurement and human resource processes in the past five to ten years. However, far fewer corporations have optimized accounts payable functions.

Some organizations have begun to centralize accounting functions into payment factories. Others have taken further steps to reduce costs by transferring invoice processing offshore or by outsourcing to a third party. Centralization and outsourcing can yield cost reductions, but maximum efficiencies can only be achieved through business process re-engineering and automation. Removing paper from invoicing processes is a critical step to achieve true efficiencies in accounts payable. Research studies performed by Aberdeen and IOMA Research reveal that more than two thirds of the companies surveyed receive more than 80 percent of their invoices on paper via postal mail.

The Problem: Paper Invoice Processing

Challenges of Paper Invoices

Each paper invoice requires time-intensive, error-prone, manual processing. While every Accounts Payable (AP) department operates differently, in general there are five phases—each of which is very resource and paper intensive:

- **Invoice Capture**—Suppliers typically generate and print invoices from their Accounts Receivable (AR) system and then mail them to the buyers for payment. Once received in the buyer's mailroom, invoices are sorted and routed to the AP department where administrators manually key them into the AP system.
- **Quality Assurance**—An AP administrator reviews each invoice to ensure data accuracy and completeness. For example, invoices are reviewed for errors such as incorrect account number or missing purchase order number. Accounts payable clerks then validate the invoices to confirm that the amount being billed matches the amount ordered and the amount of goods received. Validations might also ensure that the price billed corresponds to the contracted price. Finally, the clerk assigns the appropriate cost center to ensure the appropriate tax treatment.
- **Routing & Circulation**—Invoices often need to be approved by one or more company personnel prior to payment. The AP administrator routes invoices to the appropriate approver(s). The administrator must monitor the process, following up with required approval personnel when there are delays. In the event of an invoice dispute, the AP administrator contacts the supplier to resolve.
- **Reporting & Filing**—The AP administrator records the expenses in the General Ledger. The invoice is then filed or transported to archives for storage. In the event of a subsequent supplier dispute or audit, the invoices must be retrieved.

- **Payment**—Upon invoice approval, the payment is processed by the AP system and payment is made via paper check or Automated Clearing House.

TABLE 1: FIVE PHASES OF INVOICE PROCESSING

Phase	Activities
Invoice Capture	<ul style="list-style-type: none"> • Creation of invoice by Supplier • Delivery of invoice to Buyer • Sorting and routing of invoice to AP • Entry of invoice into AP system
Quality Assurance	<ul style="list-style-type: none"> • Verify and augment vendor data • Validate math on invoice • Match invoice to order, receipt and contract • Assign to cost centers • Ensure correct tax treatment
Routing & Circulation	<ul style="list-style-type: none"> • Determine approval authority • Circulate invoice for approval • Resolve disputes with Supplier • Monitor status of approval
Reporting & Filing	<ul style="list-style-type: none"> • Record expense in General Ledger • Store and archive for audit purposes • Respond to Supplier status inquiries • Evaluate and negotiate trade discounts
Payment	<ul style="list-style-type: none"> • Aggregate payments due to Supplier • Release payment • Send instructions to bank • Distribute remittance advice to Supplier

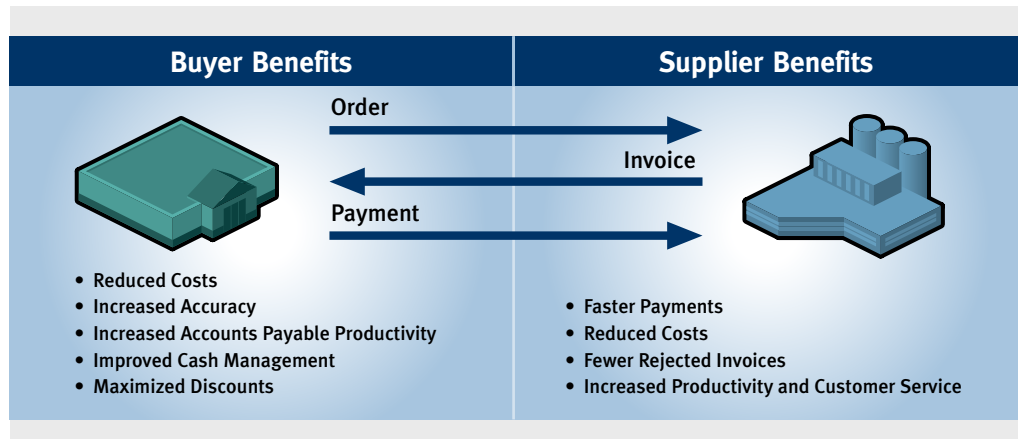
Because of these resource-intensive, manual steps, invoice processing is very costly. Invoices must be opened, sorted and routed to the appropriate payment center. Once received, accounting personnel must key data into the Accounts Payable system and then validate line item details prior to approval. But the cost burdens on the organization extend much further. Benchmark studies have reported that each invoice costs between \$4 and \$50 to process. Consider the challenges of managing paper invoices:

- **Missed Opportunities for Discounts:** Companies will often negotiate various discounts in return for early payment. However, delays in processing invoices often result in lost opportunities to qualify for trade discounts. These lost opportunities can add up to millions of dollars that would otherwise go directly to the company's bottom line.
- **High Error Rate:** Data fields in invoices are often in error. For example, in retail up to 40 percent of invoices contain data errors related to price or trade promotions. Errors require research with the buyer and negotiation with the supplier to resolve.
- **High Supplier Call Volume:** Suppliers are often paid late as a result of long invoice processing times. Suppliers call AP and ultimately other areas of the buyer's organization to inquire about payment status or payment errors. Accounts payable staff must devote a percentage of their time to field such supplier calls.
- **Reduced AP Staff Productivity:** Time-consuming paper processes prevent accounting personnel from more strategic activities such as identifying opportunities to reduce spend. Detailed invoice audits enable procurement organizations to identify supplier billing errors, maverick employee purchases and off-contract buying.

The Solution: Electronic Invoicing

Electronic invoicing enables a company to automate invoice processing. As a result, both buyers and suppliers gain operational and strategic benefits.

FIGURE 1: Benefits of Electronic Invoicing



Buyer Benefits

Buyer benefits include:

- **Reduced Costs**—According to recent analyst studies, companies that have automated their accounts payable process have realized significant cost savings. Invoice processing costs can be reduced by 30-60 percent with the elimination of sorting, registering and manual data entry of invoices.
- **Increased Accuracy**—Electronic capture of invoices enables straight-through processing of critical business data into your accounts payable systems without relying on error-prone, manual re-keying processes.
- **Increased Accounts Payable Productivity**—As a result of increased invoice accuracy, the amount of re-work required due to invoice errors and the volume of supplier phone calls to your accounts payable centers are reduced.
- **Focus on Higher Value Activities**—Increases in staff productivity enable the accounts payable organization to perform more strategic activities such as auditing and validating invoices or exploring opportunities for early payment discounts.
- **More Trade Discount Opportunities**—Electronic invoicing enables you to process and approve invoices faster. As a result, you can now take full advantage of timely payments discounts, such as a 2 percent discount for payment within ten days of invoice receipt or prorated discounts for payment made between the 11th and 30th days.
- **Improved Relationships with Suppliers**—Faster, more accurate payments to suppliers result in the ability to forge more strategic relationships. This in turn helps ensure more collaborative relationships which ultimately result in better customer service for you.

Supplier Benefits

Supplier benefits include:

- **Faster Payments**—Electronic invoicing eliminates the delays that result from mailing, routing, sorting and re-keying paper documents. Customers can easily route your invoices for fast approval and processing because the data is immediately available electronically in their workflow systems. As a result invoices can be paid on time, days sales outstanding (DSO) can be reduced by as much as four days or more and cash flow is improved.
- **Reduced Costs**—According to recent analyst studies, companies that have automated their accounts receivable process have realized major cost savings. Delivery costs can be reduced by as much as 80 percent due to savings in postage, materials, processing and storage. Further savings result from a reduction in reprint requests, customer service calls and the ability to implement electronic payments.
- **Fewer Rejected Invoices**—e-Invoicing enables straight-through processing directly from your accounts receivable system to your customer's accounts payable application. e-Invoicing eliminates their need to manually re-key the data and thus reduces data entry errors. As a result, invoices are less likely to be rejected and customers can start processing them without delay.
- **Increased Productivity**—With electronic delivery of invoices you know that your customers have received their invoices and when they were received—reducing the need for status calls. Improved accuracy resulting from electronic invoicing reduces the amount of rework required and volume of dispute phone calls.

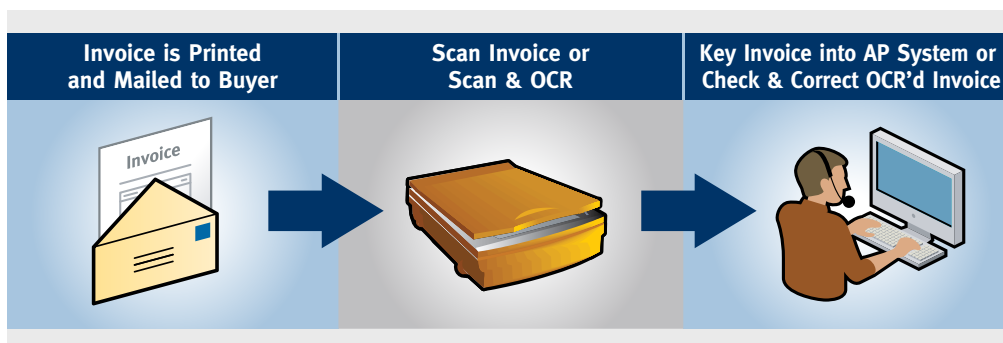
Electronic Invoicing Implementation Options

There are two main approaches to electronic invoicing—one in which the buyer bears the responsibility for creating the digital invoice and the second in which the suppliers create invoices in a digital format and sends them electronically.

Option 1: Buyer Converts Paper Invoice to Electronic Format

In this scenario, the buyer accepts paper invoices from suppliers, but takes responsibility for converting paper to electronic format using a combination of scanning, workflow and Optical Character Recognition (OCR) technologies. These technologies have definitely proven to help, particularly in reducing the amount of paper storage required. But, they all still require manual processes.

Figure 2: Buyer-Based Electronic Invoicing



The process is as follows:

Without OCR:

- The invoice arrives into the buyer's organization by mail, fax or email.
- Emailed documents are printed.
- An administrator scans the mailed, emailed and faxed documents.
- The AP administrator keys the invoice into the AP system.

With OCR:

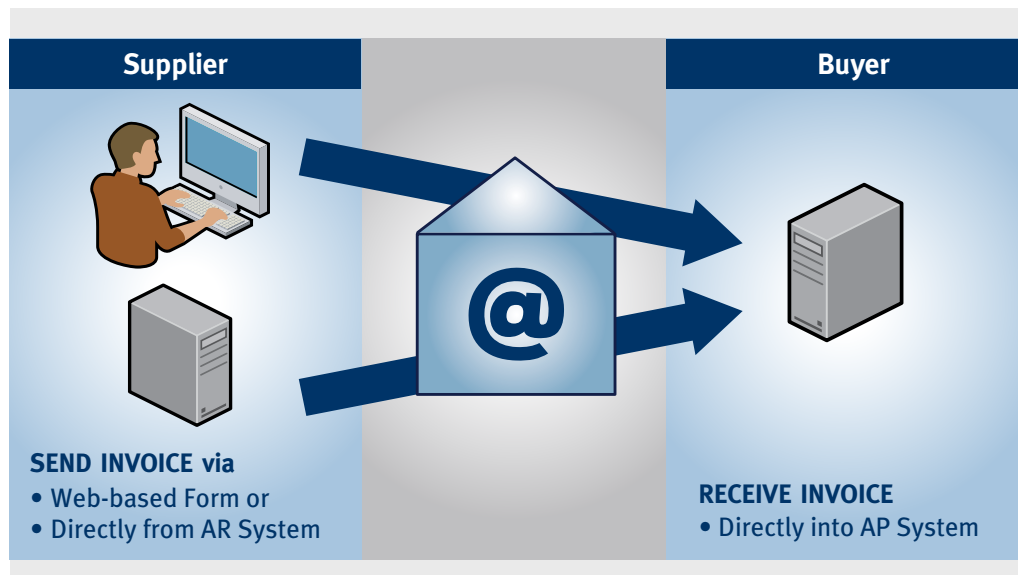
- The invoice arrives into the buyer's organization by mail, fax or email.
- An administrator scans the mailed, emailed and faxed documents.
- The OCR tool converts whatever characters it can from the paper document into an electronic form.
- The OCR tool cannot always distinguish all the characters. There is often a step for the AP administrator to compare the OCR'd document with the scanned version on two different screens and make appropriate corrections.

Many companies have been challenged with utilizing OCR so far—faced with integration issues and finding it to be costly and complex. OCR does not eliminate paper. Invoices are still received in the mail and must be scanned by your staff. The quality of OCR software products varies. Errors still occur and, assuming someone detects the errors, they require manual correction, mitigating the labor-saving benefits. In fact, according to the latest IOMA research, OCR can read only 80-90 percent of invoices.

Option 2: Capture Data from Electronic Invoices

The second option for electronic invoicing is to receive electronic invoices directly from suppliers, at the source of the data. This eliminates the buyer's need to do any data entry, speeds the process and enables all the benefits that come from electronic invoicing.

Figure 3: Supplier-Based Electronic Invoicing



The process with electronic invoicing is as follows:

- The supplier creates and sends an electronic invoice either directly from his/her AR system or via a Web-based form.
- The buyer receives the electronic invoice in a format ready to be processed by the AP system.

Historically it has not been possible to achieve this goal of supplier-originated e-invoicing due to challenges faced when integrating buyers' AP with suppliers' AR systems. Each accounting vendor utilizes different data formats and communications protocols. Consequently, e-invoicing was limited to transactions between large buyers and large suppliers with the IT resources and expertise to overcome the integration challenges. Small and medium-size businesses (SMBs) often lack the resources, budget and expertise to implement an EDI program. Third party service providers now offer a broad range of translation and protocol mediation services that can enable SMBs to overcome the technology challenges.

What to Look For in an Electronic Invoicing Solution

For any long-term, sustainable electronic invoicing solution, the solution should provide the following capabilities:

Electronic Document Exchange

The solution should:

- Facilitate the exchange of documents between buyer and supplier systems, regardless of the data standards of the respective accounting applications.
- Enable buyers and suppliers to make independent communications and technology decisions by providing multiple, secure networking options to accommodate each company's corporate security policies and IT preferences.
- Support any or all of the invoice-related documents, such as purchase orders, invoices, debit notes, credit notes, payment instructions and remittance advices. Receiving an invoice electronically is only one important component of a totally paperless accounting environment and enables additional initiatives such as electronic payments, remittance advices, ordering and more.

Integration with Accounting Systems

According to recent research studies, most companies are leveraging the accounting functionality that is included within their Enterprise Resource Planning (ERP) system. The electronic invoicing solution should enable straight-through processing with a buyer's AP system and a supplier's AR system. The solution should easily integrate with your current workflow system without requiring replacement of existing functionality. Consequently, you can use your own financial system environment to process the data presented, leverage your investment in workflow and management tools, and control the initiation of the payment transaction.

Trading Partner On-Boarding—Globally

The ROI for e-invoicing programs increases as more trading partners participate. Most companies are sourcing or selling to trading partners in other countries around the world. The solution should enable all trading partners to easily participate, both large and small, whether they are located in North America, South America, Europe or Asia. Successful initiatives require a dedicated, experienced staff to successfully plan and execute the program roll out to the supplier community including:

- Compilation of a good trading partner contact list.
- Development and communication of a clear message to the trading partners.
- Education and training options such as conferences, webinars, program-specific documentation.
- Definition of the communications and end-to-end document testing process.
- Support during the implementation process and afterwards.

Full Suite of Trading Partner Enabler Options

In order to minimize your trading partners' requirement to change their business process when processing an electronic instead of paper invoice, the solution should provide a variety of options at different price points. Examples include:

- **Web-Based Forms**—For your small and medium-sized trading partners, an easy-to-use web forms option should enable them to create and manage all their invoice-related documents. Web forms require only a Web browser and an Internet connection. There is no need to purchase or maintain software.
- **Accounting Package Integration**—Many smaller suppliers use an accounting software package such as Peachtree, QuickBooks, Sage, MYOB or Simply Accounting to manage their finances. These suppliers should be able to create electronic invoices directly from their accounting package, without requiring any re-keying of data. They should not need to purchase or learn additional software.
- **ERP System Integration**—Larger suppliers should be able to create electronic invoices directly from their ERP application. e-Invoices can then be sent directly to the customer's accounts payable application. Straight-through processing requires an intermediate conversion from the supplier's format into the buyer's format.

Data Quality Services

The solution should help you eliminate a significant percentage of the research, matching and resolution tasks associated with invoice validation by performing data quality checks before invoices are delivered to the buyer. Examples include:

- Mandatory static data is present and verified (e.g., Purchase Order #, Remit To Address or General Ledger Code).
- Invoice price matches purchase order price.
- Invoice amount matches actual goods shipped.
- Invoice amount matches actual goods received.

Regulatory Compliance Services

More and more countries are enacting legislation to regulate electronic invoicing. While

regulations are often similar in purpose, the specific requirements frequently vary by country. For example, with the EU Council Directive 2001/115/EC, the electronic invoice can now serve as the legal invoice. As a result, businesses no longer need to keep paper invoices for audit purposes. However, the electronic invoice must adhere to country-specific regulations for data format, data storage and data access requirements. Some of the legal requirements for e-invoicing that differ from one country in the European Union to another include:

- **Digital Signatures**—Some countries require invoices to be digitally signed in order to guarantee their origin and integrity. For example, Spain requires digital signatures.
- **Archiving**—Many countries require archival of digital invoices for extended time frames. For example, Germany requires data archiving for ten years and the UK requires six years.
- **VAT Compliance**—VAT (Value-Added Tax) rules in Europe vary by country. The electronic invoicing solution should enable you to comply with country-specific tax and electronic invoicing laws. The e-invoicing vendor should provide the market intelligence about country-specific regulations.

Do-It-Yourself or Hosted e-Invoicing?

You can implement an e-invoicing solution using your own internal resources or you can leverage a third party solution. Third party, hosted e-invoicing solutions can shield you from many of the complexities faced when implementing an e-invoicing solution.

Examples include:

- **B2B standards**—Support for a broad range of B2B document and communication standards. Staying up-to-date with the proliferation of B2B technical standards and with trading partners using different standards or different versions of the same standard can be challenging.
- **On-boarding trading partners**—Community management expertise and a dedicated team are needed to bring new trading partners on board. Success requires agreed-upon protocols and processes and the ability to manage change within your existing trading partner community.
- **Integration options**—Support for a broad range of integration mechanisms—Web forms, adapters for accounting packages, integration to ERP systems.
- **Multi-lingual, global support**—Trading partners in different countries will need to support different local e-invoicing regulations and tax requirements. Additionally, the partners will need technical support in a variety of local languages.

GXS Electronic Invoicing Solutions

With GXS electronic invoicing solutions you can optimize your accounts payable and receivable functions. As hosted services, they shield you from the complexities of integrat-

ing with your global trading partners. GXS's solutions enables you to achieve dramatic operational and strategic benefits without requiring changes to your current technology environment.

Table 2: GXS Electronic Invoicing Solutions

Electronic Document Exchange	Global Trading Partner Enablement	Regulatory Compliance	Quality Assurance
<ul style="list-style-type: none"> • Electronic Documents • Straight-Through Processing • EDI and Web Portal • Multiple Networking Options 	<ul style="list-style-type: none"> • Program Management • Full Suite of Enablers • 24x7 Help Desk 	<ul style="list-style-type: none"> • Digital Signature • Content Validation • Electronic Archive 	<ul style="list-style-type: none"> • Three-way Matching • Exception Alerts • Supplier Portal

GXS electronic invoicing solutions provide the following four major components:

Electronic Document Exchange: GXS enables you and your suppliers to begin exchanging electronic documents quickly, easily and cost-effectively. GXS will perform the day-to-day management of the program including trading partner on-boarding, change management and ongoing customer support. The service supports all invoice-related documents including credit notes, debit notes and remittance advices. Straight-through processing to accounting systems and multiple networking options enable you to make independent technology decisions.

Global Trading Partner Enablement: GXS can enable you to exchange electronic invoices with trading partners around the world, whether they are located in North America, South America, Europe or Asia. GXS will manage the community implementation program, saving you valuable time and resources.

GXS offers 20 different methods for creating and sending electronic invoices including Web-based forms, accounting package integration and ERP system integration. As a result, both large and small trading partners can quickly and easily participate in the program.

Regulatory Compliance: GXS e-invoicing solution includes the technology features necessary to satisfy local government regulations. For example, the service provides the digital signature, invoice images, electronic archive and tax calculation features required in the European Union.

Quality Assurance: Further levels of efficiency can be achieved in your accounting processes using the quality assurance features of GXS electronic invoicing solutions. These features enable you and your trading partners to share an accurate, up-to-date view of the status of all outstanding invoices. Furthermore, GXS can eliminate a significant percentage of the research, matching and resolution tasks associated with inaccurate invoices. Key features include a Web portal providing a shared view of orders and invoices, matching of the order to the invoice to the receipt of goods (i.e. three-way match) and configurable business rules.

Why GXS for Electronic Invoicing

GXS is the leading provider of business-to-business electronic commerce services in the world. GXS processes approximately four hundred million invoice transactions per year. GXS offers unmatched translation and integration capabilities, and services tens of thousands of small and medium businesses in North America, Europe, Middle East, Africa, Asia and Australia.

GXS's flexible on-demand model for electronic invoicing enables you to integrate your accounts payable system with your suppliers without investing in additional software and expensive staffing resources. The top priority for our technology investments—and core to our mission—is to ensure maximum availability and resiliency of our solutions. We continue to invest significantly to ensure a solid infrastructure that supports your mission-critical needs 24x7.

About GXS

GXS is a leading provider of B2B e-commerce solutions and operates the world's largest and most expansive network of integrated business communities. The company's software and services simplify and enhance businesses process integration and collaboration among networks of trading partners. Organizations worldwide, including more than 75 percent of the Fortune 500, use GXS solutions to extend their supply chain networks, optimize product launches, automate warehouse receiving, manage electronic payments and gain supply chain visibility.

Based in Gaithersburg, Maryland, GXS has operations and offices around the world. For more information, see <http://www.gxs.com>, <http://blogs.gxs.com> and <http://twitter.com/gxs>.

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