

E-Invoicing: What Is It, How Does It Work, and its Benefits



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The accounts payable department has never been known for its efficiency.

Every day, stacks of invoices are entered manually, while staff muddles through a tedious three-way matching process that matches invoices with purchase orders and receiving documents.

And let's not forget about the manual approval process, where paper invoices are sent for approval, often getting lost in the process, with the approval process often taking days or even weeks, with lost or misplaced invoices a common occurrence.

In frustration, many businesses have turned to electronic invoicing, also known as e-invoicing, which has proven to be a game-changer for the supply chain, automating the entire process from invoice receipt to timely payment.

What Is Electronic Invoicing?

The recent pandemic reinforced for businesses worldwide that work must go on, even if remote connectivity is an issue.

Though e-invoicing has been around for more than a quarter-century, more and more businesses are jumping on board as they begin to see the advantages that using e-invoicing offers.

True e-invoicing uses structured data that allows the invoice to be read by both the buyer's and the seller's system and uses an XML format or Electronic Data Interchange Format (EDI).

E-invoicing is a practical choice if you need to do global e-invoicing. Today, throughout Europe, the European Standard, initially designed for public administrations, has made e-invoicing the most widely used method of invoicing by using a specific framework designed for easy document exchange.

For instance, Peppol is a popular framework, with 31 European countries as well as Australia, Canada, New Zealand, Singapore, South Africa, and the United States using the Peppol network to exchange invoices and other documents.

While it has yet to become widespread in the U.S., more companies are making the switch to a hybrid system that uses special invoicing software to read digital invoices, thus eliminating the need to enter invoice data manually.

Before you make the switch to e-invoicing, it's helpful to learn the differences between a traditional invoice, a digital invoice, and a true e-invoice.

What Are the Differences Between an Invoice, a Digital Invoice, and an E-

invoice?

No matter what format an invoice is in, it needs to convey the same basic information. While the information may be the same, invoice formats can vary widely.

• **Traditional Paper Invoices**

Processing AP manually continues to be the method of choice for many businesses, with more than 80% of businesses continuing to use paper checks to process payments.

Even today, many business owners look at AP as a cost center, making it less valuable than other parts of the business, so company owners and CFOs remain reluctant to switch to automation.

Smaller businesses that process few bills see even less need to automate the invoice process.

• **Digital Invoices**

Digital invoices are one giant step up from paper invoices, usually sent in Word or PDF formats via email.

For companies that are using AP automation and invoicing software, these invoices can be automatically entered into the AP system for payment, matching the invoice with purchase orders and shipping receipts, routing the invoice to the appropriate personnel for approval, and sending the invoice to the right accounting software application for payment.

However, if recipients of a digital invoice are still using manual AP processing, a digital invoice does little to streamline the AP work process.

• **E-Invoicing**

True e-invoicing requires the use of EDI, which structures the data so it is readable for both the sender and the recipient.

EDI invoicing requires that both the buyer and the recipient have the appropriate automation in place for it to be used.

How Do You Use an Electronic Invoice?

Electronic invoicing is designed to eliminate all of the tedious work that is required when processing an invoice.

Beneficial to the seller, an electronic invoice is immediately recorded in your ERP's AP system once transmitted, eliminating the need to copy an invoice, enter it into an AP system manually, route the paper invoice to the appropriate approvers, or mail a paper check to the seller.

Keep in mind that once sent, an e-invoice cannot be changed or deleted, so it's doubly important to ensure that the invoice is completely accurate before sending.

If you do accidentally send an incorrect invoice, you'll have to issue a credit for the original invoice to cancel it out, and then issue a corrected invoice.

What Are the Benefits of E-invoicing?

There are many benefits to e-invoicing for business partners. For buyers using an automated AP system, receiving an invoice electronically means that it will be scanned automatically into their AP system, eliminating the need to process invoices manually.

This is a huge benefit for businesses looking to cut down on the amount of paper they process manually while also freeing up internal resources to concentrate on more critical activities.

As more businesses turn to AP automation, there is an increased demand for automated AP applications like PLANERGY that streamline the entire procurement and AP process by automating once tedious tasks like data entry, three-way matching, and approval routing.

Using these systems helps automate the entire AP process by allowing users to quickly scan electronic invoices directly into the application, with Optical

Character Recognition (OCR) used to eliminate the need to enter data manually.

But streamlining the AP process is just one of the benefits of e-invoicing. Whether you opt for true e-invoicing or use digital invoicing, these benefits are too great to ignore.

▪ **Increased Visibility and Accuracy**

Using automated systems, including e-invoicing, gives managers and other stakeholders a better view of company finances and cash flow since invoice activity, purchase orders, and contracts are all visible.

Electronic invoicing also provides an in-depth view of the company in real-time, so you'll always know how much you've spent, where you spent it, and where you need to cut down.

You'll also be able to review the entire AP process from start to finish, easily viewing paid invoices, and those yet to be paid, with the ability to spot any potential payment delays before they become costly.

▪ **Reduce Paper Consumption**

Besides saving money on paper and related supplies like ink, toner, and postage, making the switch to electronic invoicing and paperless AP also significantly reduces your carbon footprint.

And remember, all that paper has to go somewhere, so making the switch to an automated system will also save you on any associated costs such as storing documents at an outside facility.

▪ **Significant Cost Savings**

When factoring in lost discounts, late payment penalties, a significant amount of data entry, and the cost of paper, postage, and envelopes, making the switch to e-invoicing can significantly reduce labor costs, freeing your employees to use their talents more productively.

These savings combined significantly reduce your accounts payable

processing costs.

• **Elimination of Duplicate or Fraudulent Payments**

Manual AP systems lend themselves to a significant amount of human error, including duplicate payments. Unfortunately, a manual AP system is also ripe for fraudulent activity.

Using an e-invoicing system eliminates duplicate payments while significantly reducing the risk of accounts payable processing costs.

• **Reduction in Missing Documents**

Every time an invoice is sent in the mail, sellers are making the assumption that it will arrive at its destination timely. But the problem is, you're relying on a system that you have no control over.

Mail gets lost or delivered to the wrong address. But even when the invoice is delivered properly, there's no guarantee it will end up on the right desk. Paper invoices often get delivered to the wrong person initially or get routed to an approver, where they can sit for days.

With an e-invoice, you'll always have access to a copy of the invoice, and after it's been processed, it can be retained in electronic storage, making it easily accessible at any time.

• **More Accurate Reporting and Accruals**

The stack of paper invoices sitting on your desk will not show up in your reporting totals until you enter them. Using an e-invoicing system, the minute an invoice is received or scanned into the system (for digital invoices), that total will be included in your payables.

Remember, that same stack of invoices can also impact your accruals and the accuracy of your reporting.

• **Benefits Both Buyers and Sellers**

E-invoicing provides benefits for both buyers and sellers. For buyers using AP automation, receiving an invoice digitally can eliminate manual processing entirely, allowing them to scan the invoice directly into an AP automation system such as PLANERGY, which also works to streamline the entire three-way matching process, including easy matching of purchase orders and shipping receipts.

Using AP automation also provides automatic routing of the invoice for approval and quick turnaround on payment.

For sellers, using digital invoicing eliminates the need to manually create, print, copy, and mail an invoice to a buyer.

It also eliminates invoices lost in the mail, delivered to the wrong address, or simply getting lost once delivered.

And in many cases, when billed electronically, with an option to pay online, many buyers pay much earlier than those paying by check.

As noted, all of these advantages are dependent on whether buyers have automated their AP system. If you're still processing AP invoices manually, receiving an invoice electronically will make no difference to your workflow.

Benefits of E-Invoicing



Increased Visibility and Accuracy



Reduce Paper Consumption



Significant Cost Savings



Elimination of Duplicate or Fraudulent Payments



Reduction in Missing Documents



More Accurate Reporting and Accruals



Benefits Both Buyers and Sellers

PLANERGY™

What Are the Challenges of E-invoicing?

Along with the numerous advantages, there are some drawbacks to e-invoicing, especially since many companies are only now beginning to transition to accounting automation.

The U.S. in particular has experienced a significant delay in making the move to an e-invoicing system, due to a series of challenges.

To date, the biggest challenge has been establishing common e-invoicing standards among various accounts payable and accounts receivable systems that will allow easy integration with current ERP systems.

Without these standards in place, e-invoicing could prove to be even more time-consuming and costly than the current manual paper systems in place.

Another challenge facing the widespread use of e-invoicing is the reluctance of smaller businesses to implement electronic payments, often citing security issues.

While many larger organizations have the systems in place to adopt e-invoicing, it's only when others show their interest in joining the ranks, that a common standard will be established.

Why Is E-invoicing Needed?

Today's workplace is significantly different than it was only three years ago.

Though the pandemic highlighted the challenges of manual systems and in some cases served to accelerate the switch to AP automation and an e-invoicing solution, there are still a number of businesses that remain reluctant to make the switch.

But as more companies embrace this technology and the appropriate standards set, the choice will be made for them.

Proper AP management is at the forefront of forward-thinking businesses that are looking for a proactive invoice management system.

AP automation and e-invoicing do just that, streamlining business processes and payment processes while eliminating repetitive tasks, lost or misplaced invoices, and late payment penalties.

What's your goal today?

1. Use PLANERGY to manage purchasing and accounts payable

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- Visit our Accounts Payable Automation Software page to see how PLANERGY can automate your AP process reducing you the hours of manual processing, stopping erroneous payments, and driving value across your organization.
- Learn about us, and our long history of helping companies just like yours.

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