



White Paper  
The implications of e-invoicing  
for purchasing and accounts  
payable automation projects





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## Introduction

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The ability to cost effectively convert a purchase invoice into electronic data that can be imported into purchase automation applications and ERP solutions is a complete game changer for AP automation.

Whilst some would still argue that a self-approved paper purchase invoice and prompt supplier payment is an acceptable protocol, the reality is that there are now far more productive and rigorous methodologies available and the introduction of e-invoices makes them far more commercially compelling.

This white paper sets out to provide the reader with a clear understanding of what an “e-invoice” is, how they can be generated and explain the significant and far reaching implications e-invoices have on all purchasing / accounts payable automation projects.

## What is an e-invoice?

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Our definition of an “e-invoice” is an electronic data file which contains the summary purchase invoice information (usually in XML format) and includes as a minimum:

- The supplier identity
- Purchase order number
- Purchase invoice number
- Purchase invoice date
- Purchase invoice gross, net and VAT values

It is possible to extend the captured information to include line level information, however this increases the complexity and costs of generating an e-invoice, but adds little value for most organisations.

## How can e-invoices be created?

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There are three common ways that an e-invoice can be created. It is the simplicity and low cost of delivering an e-invoice that changes the rules:

### Supplier e-invoice:

Most major suppliers have the ability to generate an invoice in electronic format (most commonly XML) and deliver that data to a nominated location for the customer to “collect”. The data will include a readable PDF version of the invoice for reference and audit purposes.

However, the number of suppliers that offer this service remains low (as a percentage of all of your suppliers) so whilst it is relevant, it is only part of the picture.

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## Document Management / OCR e-invoices:

A growing number of organisations are using “Optical Character Reading” (OCR) technologies to convert a paper invoice into XML data that can be captured and automated as part of their purchasing automation strategy.

An organisation would need to be processing at least 6,000 purchase invoices per annum to consider purchasing the equipment to bring this function in house, reflecting the costs of the equipment and services required to deliver it.

The process is also still relatively labour intensive as it requires the solution to “learn” the layout of purchase invoices from each supplier in order to deliver a high level of subsequent invoice processing automation. The “learning” process requires the scanning of the invoice followed by the physical mapping of the location of key information on the page (supplier Id., purchase order number, purchase invoice number, purchase invoice date, net, VAT and gross values). Once a supplier has been “on-boarded”, the majority of their subsequent invoices will be converted to XML formatted data through the invoice scanning process.

The alternative approach is to outsource the OCR scanning function. This avoids any capital outlay on equipment and also removes the physical resource required to compile, scan and process the purchase invoice. The relevant information is simply delivered as XML data with a readable PDF attachment. There are a growing number of “outsourced” providers that have built very high volumes of e-invoicing processing across all their customers and use state of the art technology and processing to maximise productivity. The result is that this option has become far more competitively priced whilst also removing all the labour associated with delivering the e-invoice.

To utilise an outsourced service, the only change required is to notify your suppliers to send their paper invoices to the nominated P.O Box number of the selected provider. The standard level of service is that all invoices will be converted to accessible XML data within 48 hours of receipt of the document.

## PDF e-invoices:

The relatively recent introduction of technologies that enable a PDF invoice to be cost effectively converted into XML data is the most significant contributor to making e-invoicing available to all. You are probably already receiving a growing number of your invoices as an emailed PDF already.

This is because almost every accounting / ERP application provides the ability to generate a PDF invoice and then email it to the customer. It is extremely easy to set up and removes the need for the supplier to physically print the invoice, place it in an envelope and post a hard copy. It saves the supplier a great deal of time and money, whilst being considerably more carbon friendly than the OCR methodology.

What is not commonly known is that an ERP / accounting software generated PDF includes accessible data that reflects all the information shown on the PDF document. This data can be captured, processed and delivered as structured XML data – without your intervention.

The only action required is to notify your suppliers to provide the purchase invoice via email to a nominated address in PDF format. You should expect that over 90% of all purchase invoices can be received in this manner – and this number will continue to increase over time. This methodology can also be applied to Word and Excel documents.

Today, every organisation can opt to move to e-invoicing without any capital outlay by making use of one of the hundreds of providers that specialise in these services. HMRC do not require a hard copy of the invoice to be retained and all that is required is the ability to access a readable copy of the relevant information on demand. All the above methodologies of e-invoice creation meet this requirement.

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OCR / e-invoicing has become a mature and highly competitive market. The cost of delivering an e-invoice is as little as £0.20p each and does not require any resourcing requirements from your organisation.

Whilst there may be some initial reservations about security, visibility and control over the purchase invoices being converted to e-invoicing, any due diligence will address these concerns.

In summary, it is now easy and cost effective to generate an e-invoice and remove all the paper from the process. The next question is what can you do with these e-invoices?

## Capturing and processing e-invoices

The level of the benefits that can be derived from e-invoicing are solely dependent on the processes in place to capture, process, approve and post the e-invoice transaction directly into your ERP / accounting software.

This section looks at the different options for the capture and processing of e-invoices, the level of automation achieved and associated productivity benefits.

### Simple e-invoice capture into the ERP application

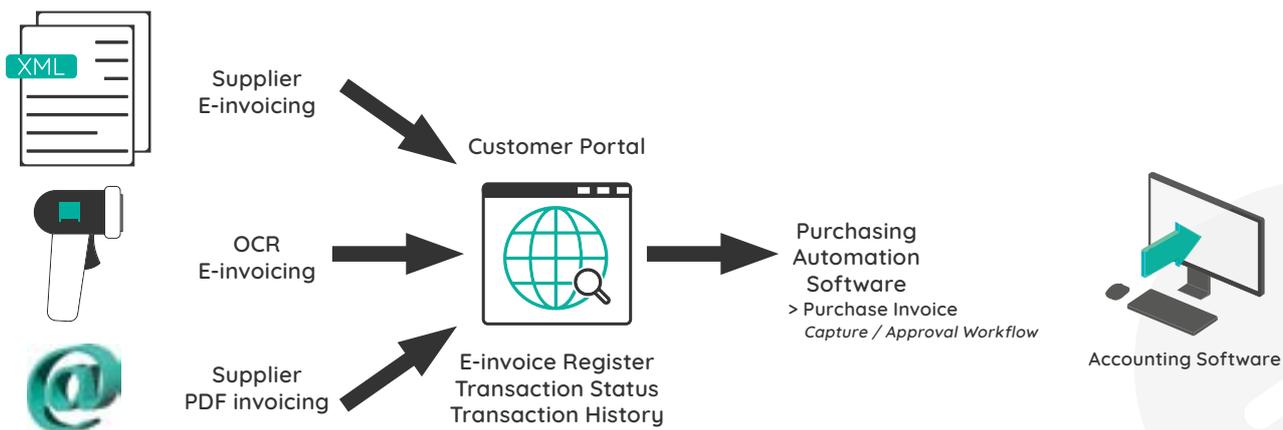
The most basic form of automation is where the e-invoice simply creates the purchase invoice posting within the ERP solution with the option to attach the PDF invoice image.

It assumes that your ERP software has the ability to import structured XML data or the e-invoice provider supplies the necessary utilities to achieve this. The e-invoice is captured and creates a purchase invoice posting transaction for the relevant supplier.

The benefit is the time saved associated with opening the mail and posting the purchase invoice transaction header information and the subsequent filing of the paper invoice. The AP function is still required to undertake the GL analysis and circulate the purchase invoice for approval prior to the transaction final approval and posted to the ERP solution.

The least attractive aspect of this approach is when a hard copy of the invoice is still required to enable it to be approved and the only solution is to print a hard copy from the e-invoice to achieve this.

### E-invoice capture and workflow approval



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The level of productivity gains improve significantly when the e-invoice is posted to a purchase invoice approvals workflow application that is integrated into your ERP solution.

The purchase invoice transaction is captured with the PDF attached and dropped into the AP worktray for processing.

The AP function still has to undertake GL analysis of the invoice, but it can then be immediately sent electronically to the approver(s) together with a PDF copy of the invoice. On final approval, the transaction is automatically posted to the ERP solution. There is no longer a requirement for a physical copy of the invoice or the filing associated with it. The introduction of an e-invoice process when combined with invoice approval and ERP integration will save a significant amount of time within the AP function.

## Purchase orders and e-invoicing

The introduction of a formal purchase ordering process significantly increases the productivity available from e-invoicing.

Modern “Purchase to Pay” (P2P) applications are designed to make it very fast and simple to generate a “requisition” – a request to purchase and apply a formal approval workflow process to generate the purchase order. These P2P applications access the supplier’s information for the purchase / accounts payable ledger and the chart of accounts from the general ledger to simplify use whilst ensuring the information captured is always valid.

As important, leading P2P applications will also fully automate budget management, ensuring that the budget holder is always aware of budget availability for every line on every purchase requisition through the approval process.

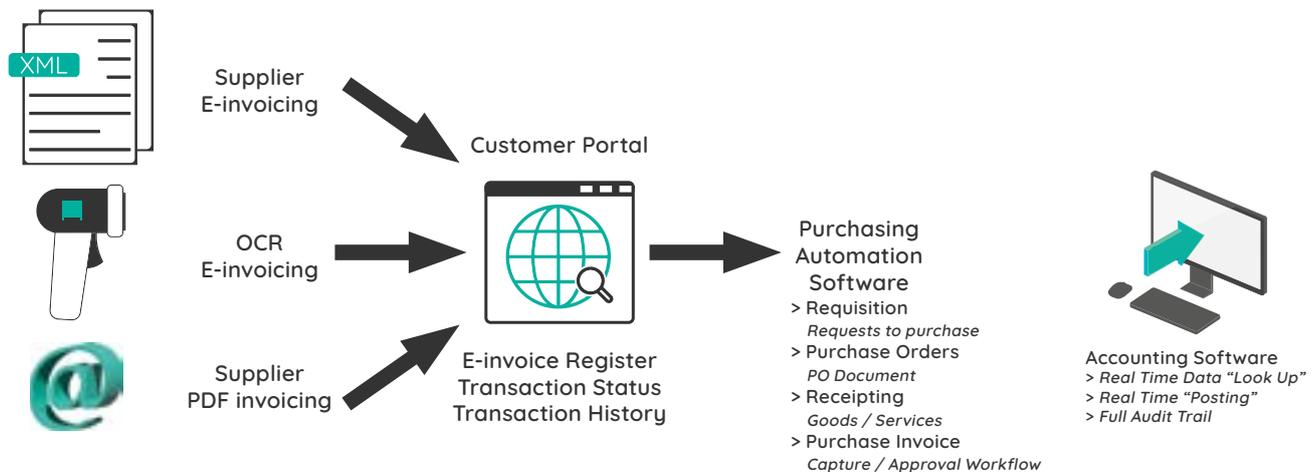
Once a purchase order has been approved and raised, it contains all the information on the supplier, the expected value of the associated purchase invoice and fully general ledger analysis.

When the e-invoice is received, it automatically finds the relevant purchase order(s), attaches the PDF copy and undertakes a full reconciliation without any user intervention.

When the invoice fully reconciles with the purchase order, the transaction is automatically sent to the relevant approver(s) to validate supply has taken place prior to payment. On final approval, the transaction is posted directly to the ERP solution. If there is a difference between the invoice and the purchase order, the transaction is dropped into the AP function work trays for review prior to the approval process.

These purchase transactions are not touched by the AP function at all. It is not unreasonable to expect over 80% of transactions to be successfully processed without AP intervention relatively quickly, making productivity gains very substantial. The capture and approval process is also reduced significantly. A PDF invoice can take as little as a couple of minutes from being sent by email to being presented to the relevant approver. On final approval, the transaction is immediately posted to the accounts for payment.

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## E-invoicing process, visibility and audit trail

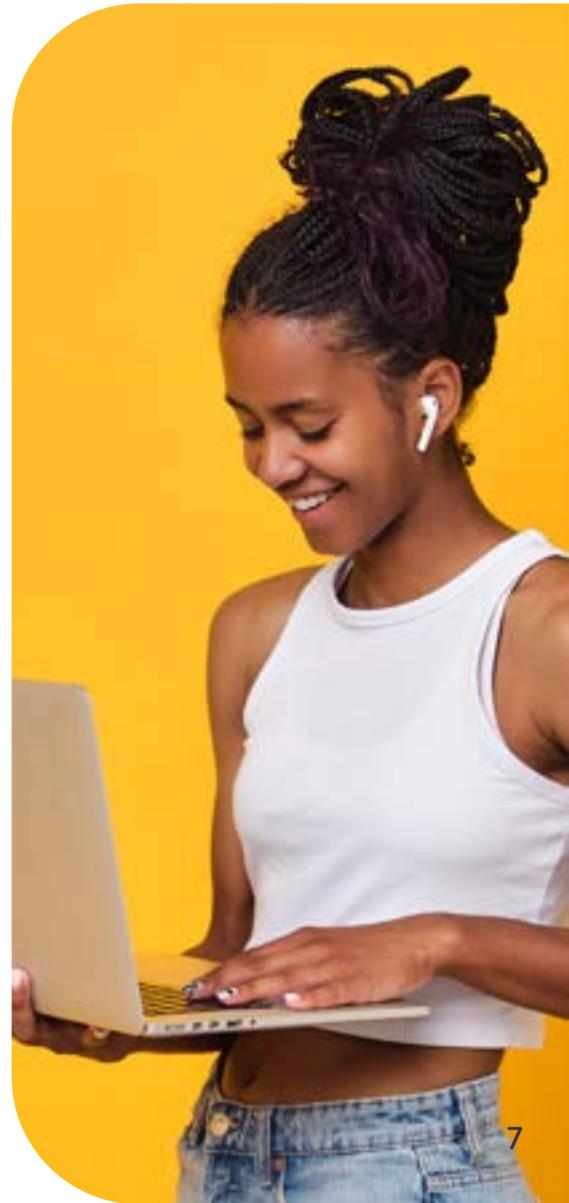
A common concern of e-invoicing methodologies is the perceived loss of visibility and control offered by a physical piece of paper. What happens if it gets lost or is not processed successfully?

The common approach to allay this concern is the provision of a suitable “portal” that provides a secure and immediate real time access to the status and audit trail of every current and historic e-invoice, irrespective of how it was generated. Each transaction is logged (time / date / source) on receipt, on processing to XML, output to the download area, successful download and successful posting to the workflow application / ERP solution.

This information can be displayed in multiple formats which include a single or range of suppliers, between a range of dates or between given values. The information can also be exported into Excel or Word with a single click. As important, every transaction is provided with a link directly to the PDF image of the purchase invoice for immediate access.

All exceptions where the transaction is not successfully processed are highlighted and alerts triggered for intervention by the e-invoicing provider. In the event that, for example, a PDF transaction cannot be automatically processed, it is emailed directly to the AP team and processed manually.

Leading P2P solutions provide a comprehensive management process to ensure all transactions are successfully captured and posted to the ERP solution.



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## Summary

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