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The business benefits of e-Invoicing for Manufacturing

How to trade more effectively by meeting global
e-Invoicing requirements

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The changing focus of e-Invoicing

E-Invoicing is a common business-to-business (B2B) practice that has been available for decades. Initially, e-Invoicing adoption was driven by cost savings and business benefits. With many governments now mandating e-Invoicing to tackle tax fraud and increase revenue, manufacturers—especially those that trade globally—are looking for an enterprise e-Invoicing platform to address the complex web of worldwide trading and regulatory requirements.

The transition from paper-based to electronic invoices speeds the trading process and improves the quality of invoices while saving a great deal of time and effort. It also offers an opportunity for tax authorities to use invoices to ensure they can maximize the collection of revenues owed.

More than 170 governments worldwide now operate a value added tax(VAT) or goods and services tax (GST) scheme.[1] This is now the largest type of transaction tax in the world.[2] It is also a major source of tax fraud. A global VAT gap—the difference between revenue due and what is collected—has emerged. In some cases, as much as 30 percent of potential VAT revenue goes uncollected.[3]

Over the past 20 years, governments worldwide have recognized e-Invoicing's value as a tool to combat fraud and are legislating to make it mandatory. These mandates are generally combined with a switch from the traditional post-audit model, whereby taxpayers must retain copies of invoices for many years and be audited long after the transaction took place. With new clearance models, invoices are submitted directly to a central tax authority portal where they are approved or "cleared" prior to delivery to the buyer. This approach has given governments unprecedented visibility into the financial operations of businesses and massively reduced VAT fraud.

Today, more than 50 governments have some form of e-Invoicing mandate, with many more to follow in the coming years. Latin America leads the way with Mexico, Brazil, Peru and Chile wielding hefty penalties for organizations that do not comply with e-Invoicing mandates. The rest of the world—the EU and Asia especially—are rapidly catching up. These shifts have delivered significant improvements; Brazil has increased its tax revenue by $58 billion a year, while Mexico has increased tax collection by 34 percent.[4]

As the world emerges from the pandemic, e-Invoicing has a major role to play in addressing supply chain imbalances. Industrial output and demand have begun to rapidly increase, placing more pressure on over-worked accounts payable (AP) departments. Many manufacturers are now struggling to process invoices effectively to support growing order books.

One market survey found that while order volumes had surged by 35 percent, the total volume of invoices processed rose just two percent.[5] The inability of invoice processes to keep up with demand is damaging both supplier and customer relationships. However, there is also potential spill-over into other business investments.

Put simply, e-Invoicing compliance is now one of the most important—albeit challenging—aspects of business for any manufacturer that trades globally.

[1] OECD, *Consumption Tax Trends 2020: VAT/GST and Excise Rates, Trends and Policy Issues*. (2020)

[2] OpenText, *e-Invoicing explained*. (2020)

[3] Taxback International, *The VAT Gap Report 2020 | Estimated €164bn to be lost in VAT due to COVID-19*. (2020)

[4] Sovos, *How do Clearance Systems Relate to Major Innovations in E-Business?*. (2017)

[5] Tradeshift, *Tradeshift's Index of Global Trade Health Q1 2021*. (2021)

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Vital benefits of e-Invoicing for global manufacturers

Although e-Invoicing has been available for a long time, many manufacturers are still using paper and email for invoicing. This has led to high invoice costs and long processing times in AP/AR (accounts receivable).[6] By digitally transforming their AP/AR processes, manufacturers can reap substantial benefits.

Cost reduction

Research consistently demonstrates the cost savings of moving away from paper invoices. Research company Billentis estimates that senders of e-Invoices can save about 59 percent and recipients can save 64 percent when compared to using paper-based processes.[7]

Invoice accuracy

Paper invoices require significant manual intervention. Accounting staff on both sides must key and rekey data into electronic systems, inevitably leading to human error. Electronic capture of invoices enables straight-through processing of critical business data into AP systems without manual re-keying. While this automation will not eliminate error, the risk is dramatically reduced.

Time savings

By enabling end-to-end automated processing, e-Invoicing makes it quicker and easier for staff at both ends. More accurate invoices mean there is less time spent making corrections and re-issuing statements. Billentis found that electronic and automated invoice processes could reduce cycle times by 60 to 80 percent compared to traditional paper-based processing.[8]

Faster payment

The result of faster invoice handling is often getting to payment sooner. Delayed payments represent both an administrative and financial burden, especially on cross-border trade. While late payment penalties work as a stick to prod recalcitrant buyers into paying, suppliers often find that a carrot is more effective and are willing to offer discounts of one to two percent for early payment. For buyers spending millions or billions of dollars on goods and services each year, this level of discount quickly adds up and improves cashflow. In addition, e-Invoicing can represent guaranteed payments, which offer the potential for dynamic discounting and supply chain financing agreements.

Better visibility and compliance

Invoicing on paper means there is a delay in the invoice becoming visible within the accounting system. This affects the speed and accuracy of forecasting and planning. Within the treasury function, the ability to see an invoice

as soon as it is issued provides a much greater level of certainty and control. This improved visibility of the invoicing process helps with customer, industry and regulatory compliance.

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[6] Tradeshift, *The future and the digital transformation of accounts payables in manufacturing*. (2020)

[7] Billentis, *Business Case: E-Invoicing/E-billing*. (2017)

[8] Ibid.

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Improved customer and supplier relationships

E-Invoicing enables suppliers to deliver a higher level of service. Where issues do occur, it is much quicker to find and fix the errors electronically, reducing or eliminating payment disputes. Moreover, the process of the supplier and buyer integrating their systems to enable e-Invoicing requires each side to make an investment in the long-term nature of the relationship.

Building an effective e-Invoicing strategy

As manufacturers move towards Industry 4.0, many digital technologies have emerged that can transform the entire manufacturing sector. However, advances in production, design and experience are critically undermined if organizations cannot fulfill orders and pay suppliers. An effective e-Invoicing strategy should feature the following:

- **Integration with existing systems**
  A strategy based on an enterprise platform will enable easy integration with current workflow, invoicing and accounting systems without requiring replacement of existing functionality. Consequently, manufacturers can use their own financial systems to process data, leveraging investments in workflow and management tools and controlling payment initiation.

- **Trading-partner enablement**
  The ROI for e-Invoicing programs increases as more trading partners participate. Most companies are sourcing from or selling to trading partners in multiple countries. The strategy should enable all trading partners to easily participate regardless of where they are located. For most organizations, this will require creating a mix of different e-Invoicing approaches from fully integrated to portal and PDF/email to digitally empower 100 percent of a manufacturer's trading partner community.

- **Regulatory compliance**
  Digitizing and automating the invoice process means complying with specific legislation that regulates electronic invoicing in VAT regimes. Although often similar in purpose, specific requirements do vary by country. Not just regulation or standards at a national or governmental level that must be met; manufacturers will also be faced with industry and customer mandates that must be accommodated.

It may take some time to get to 100-percent invoice automation, but most organizations targeting partners who are ready to switch over can save significant costs, freeing up internal resources to focus on the long tail. Early wins in e-Invoicing can then help fund continued efforts as the strategy develops.

Choosing an enterprise e-Invoicing platform

A unified enterprise e-Invoicing platform connects manufacturers to an existing global community of customers, suppliers and other supply chain partners with tried and tested integrations. Companies exchanging information over the platform are already doing so in a way that is compliant with industry standards, local regulations and government mandates.

Such a platform accommodates different document formats, technology standards and communication protocols to be able to automatically deliver outbound receivables e-Invoices as well as support inbound accounts payable flows.
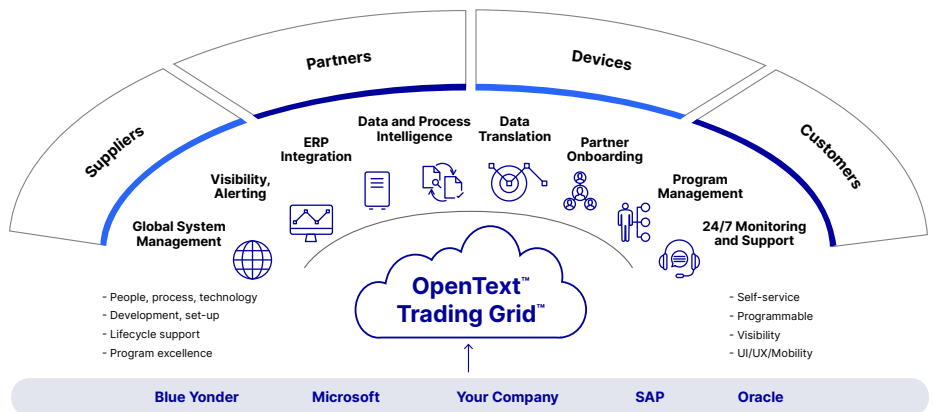
Figure 1: A unified enterprise e-Invoicing platform

In order to meet government, industry or customer mandates, manufacturers' e-Invoicing solutions must adhere to all technical, form, format, integrity, authenticity, archiving and audit requirements.

This a sizeable challenge, given that the growth in mandates and requirements has not been mirrored by a growth in common formats or standards. Today almost every country and region interprets e-Invoicing in a slightly different way and stipulates different formats and standards—technical, industry and regulatory—including:

• Technical standards such as ANSI, UN/EDIFACT, XML, ebXML, OASIS UBL 2 and PDF/A-3.

• Industry standards such as GS1 in retail, ETIS in Telecoms, RosettaNet in High-Tech and ISO 20022 in Finance.

• Regional/country standards such as PEPPOL in the EU and parts of the Asia Pacific region, FatturaPA in Italy, FacturaE in Spain, UBL-TR in Turkey, Comprobante Electronico in Ecuador and the NFe, NFS-e and CT-e formats in Brazil.

Maintaining compliance with tax authorities globally requires an e-Invoicing solution that monitors changes and applies new regulations and archiving requirements proactively to keep manufacturers compliant in any country.

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A world of mandates, formats and standards:
Global e-Invoicing requirements

- Optional post-audit regime
- Optional B2B, mandatory B2G
- Additional reporting/storage
- Mandatory clearance regime

UK: EDI, PDF, PEPPOL, PECOS

Nordic: Nemhandel, Tieke PEPPOL, Finvoice, TEAPPSXML

Canada: No explicit e-Invoicing regulations but robust record-keeping is mandatory

USA: No VAT, sales tax reporting not related to invoice so no explicit e-Invoicing requirements IRS requirements relate to document retention SOX also imposes controls - eSignature is one option **FED and BPC** pilot an e-Invoicing exchange framework **OMB** pushing for B2G e-Invoicing

France: B2G Chorus Pro B2B: PDF, EDI, Factur-X 2024 mandate

Germany: PEPPOL, Xrechnung, ZUGFerd

EU: EDI, PDF, others B2G Public Procurement Directive

Ireland: PEPPOL, PDF, EDI

EU: GDPR impacts archiving for e-Invoices

Russia: Optional but eSignature mandatory

Mexico: Mandatory clearance XML CFDi issued by authorized PAC

China: Golden Tax System e-Invoicing pilots underway

Columbia: Mandatory clearance XML UBL 2.1 with eSignature and CUFE

Poland: EDI, PDF, other 2023: Mandate to use KSEF portal

Japan: Optional e-Invoicing 2023: mandate

Peru: Optional e-Invoicing but many taxpayers now mandated SUNAT authorization for systems

Portugal: EDI, PDF, other 2022: ATCUD/QR code

South Korea: Mandatory e-Invoicing via NTS portal Electronic signature required

Chile: Mandatory clearance XML with eSignature

Taiwan: Mandatory for certain industries Ministry of Finance platform or accredited systems

Brazil: Mandatory clearance with different Federal and State requirements XM NFe, NFCe, NH3e, and CTe with eSignature

Italy: Mandatory Sdl portal FatturaPA XML eSignature

Greece: Mandatory MyData portal XML eSignature

Philippines: Optional but accreditation for CAS required

Argentina: Mandatory clearance No specific format, but invoices must include CAE provided by AFIP

India: Clearance mandate Invoices require IRN from gov't portal

South Africa: Optional Archiving domestic only

Turkey: eFattura, eArsiv, UBL 2.1 TR

Australia and New Zealand: B2B: EDI and PDF B2G: ANZEIB announced PEPPOL
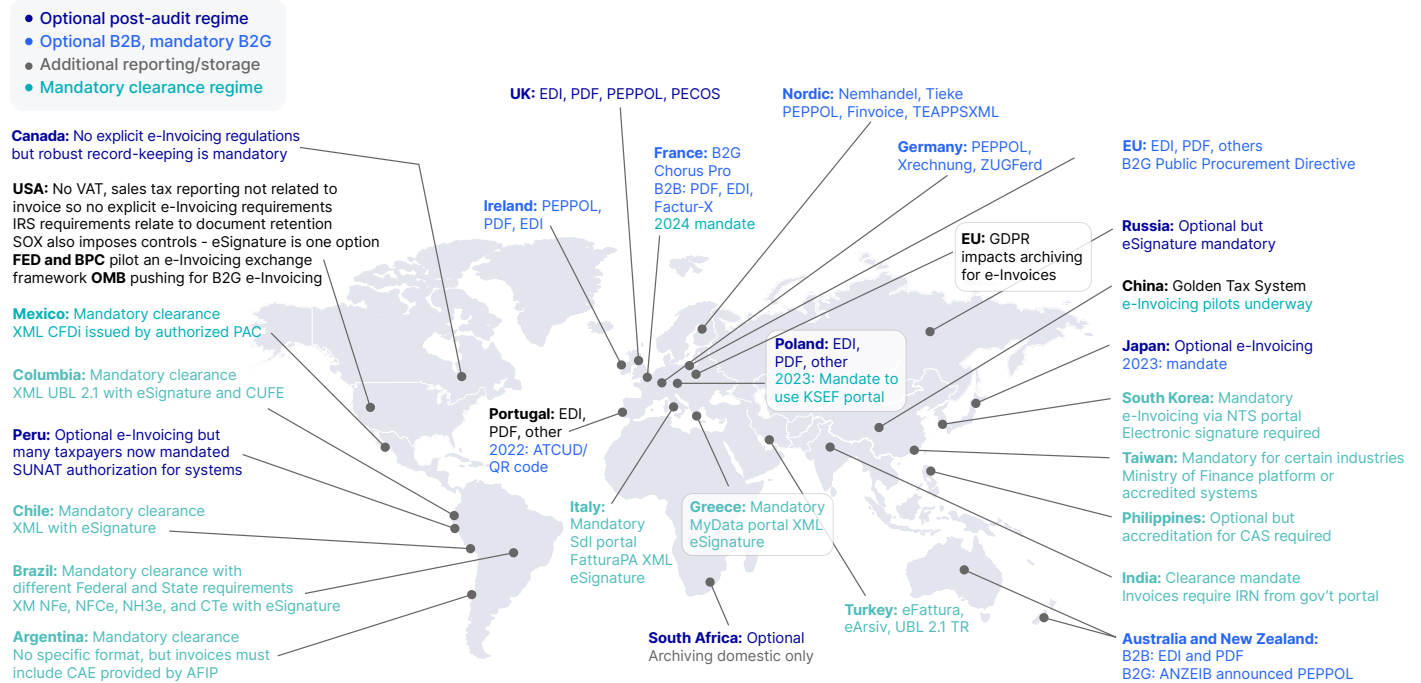
Figure 2: The complexity of global e-Invoicing

Compliant E-Invoicing for Global Manufacturing from OpenText

Designed with global manufacturers' specific needs in mind, Compliant E-Invoicing for Global Manufacturing from OpenText™ provides companies with a single, global enterprise e-Invoicing platform to facilitate trading with their communities of partners and suppliers worldwide. It can:

- Consolidate point solutions onto a central platform.

- Quickly onboard and begin trading with new and existing suppliers.

- Accommodate existing global, regional and country regulatory and tax requirements while monitoring for, adapting to and introducing new requirements.

- Handle the complexity of varying e-Invoicing standards, protocols, technologies and platforms.

- Trade electronically with 100 percent of a trading partner community.

- Take full advantage of the power, scalability, security and performance of the cloud.

- Implement a secure digital archiving system to ensure compliance and facilitate auditing.

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Learn more about how Compliant E-Invoicing for Global Manufacturing from OpenText™ can help your organization enable trading partners while meeting current and future regulatory and industry mandates.

About OpenText

OpenText, The Information Company, enables organizations to gain insight through market leading information management solutions, on-premises or in the cloud. For more information about OpenText (NASDAQ: OTEX, TSX: OTEX) visit: opentext.com.

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