

SAP AUSTRALIA

**SAP RESPONSE TO OPTIONS FOR MANDATORY ADOPTION OF  
ELECTRONIC INVOICING BY BUSINESS**

SAP Australia

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## EXECUTIVE SUMMARY

SAP welcomes the Government's Discussion Paper (**DP**) "Options For Mandatory Adoption Of Electronic Invoicing By Business". SAP strongly supports the Australian Government's drive to increase uptake of e-invoicing across the Australian economy.

The Australian Government has adopted the PEPPOL e-invoicing standard as the foundation to support the economy wide digitisation of procurement. E-invoicing, when part of a digital "Source-To-Pay" (**S2P**) infrastructure, will deliver efficiencies, improve compliance, reduce costs and improve business relationships. By connecting the sourcing, buying and payment processes, S2P will facilitate faster payments and provide a transparent, connected and seamless S2P experience for both purchasers and suppliers.

PEPPOL is an enabling element of S2P by acting as an electronic directory to connect purchasers and suppliers and enable them to share invoice data in a standardised format. SAP fully supports the governments mission as highlighted by our digital procurement platforms establishing connections into PEPPOL Access points.

SAP considers that to support government policy making on the question of increase uptake of e-invoicing consideration should be given to a business survey to assess the extent to which e-invoicing has already been adopted by business, the level of maturity of those businesses along the S2P spectrum and at the small business level, what barriers are currently hindering more widespread adoption.

SAP would consequently recommend the Government consider undertaking an e-invoicing maturity health check survey of a representative sample of small, medium and larger Australian businesses. We would be delighted to support the government in undertaking this work.

We are cognisant that mandating the PEPPOL standard could be disruptive for large businesses that have already made significant investments in e-invoicing platforms and standards.

Instead of mandating to non-government entities, in addition the policies it puts in place a buyer of goods and services, SAP recommends the Government consider:

- non-regulatory options to incentivise larger businesses to continue to invest in mature S2P e-invoicing processes; and
- incentivising larger buying organisations to onboard smaller businesses onto S2P e-invoicing platforms allowing small business suppliers to connect to larger business purchasers' own investment into such platforms.

## 1. INTRODUCTION

### 1.1. SAP SOLUTIONS AND ROLE WITHIN THE AUSTRALIAN ECONOMY

SAP has strong presence supporting Australian businesses and governments realise the many benefits of S2P, regardless of their size and transaction volume. For example, over a 12-month period:

- 40,000 Australian suppliers transacted electronically with their customers via SAP's Ariba Network, this equated to 5 million invoices with a total value of \$35 billion AUD; and
- 1.7 million invoices were processed on SAP Concur in Australia with a total value of \$14 billion AUD.

Through this presence, SAP has gained many insights about our Australian customers and their adoption of e-invoicing. We welcome the opportunity to share these insights with the Australian Government as we consider that S2P will deliver improved productivity and efficiency for larger businesses and by reducing friction in the end to end processes accelerate payments to Australian small businesses.

All SAP procurement platforms have established relationships with PEPPOL access points to enable our customers to access PEPPOL infrastructure for facilitating procurement transactions. We are also cognisant of the significant investment Australian businesses have made to enable digital procurement and the opportunity to leverage that capability.

Furthermore, as a major supplier of procurement solutions to the Federal Government, SAP looks forward to supporting the Government to achieve its commitment to have all Commonwealth agencies adopt e-invoicing by 1 July 2022. We continue to partner with the Australian Taxation Office to support the development of local processes, rules and governance arrangements for integration of Commonwealth agencies procurement systems with PEPPOL.

## 2. CONSULTATION QUESTIONS ON ADOPTION OF PEPPOL E-INVOICING

### 2.1 WHAT IS E-INVOICING?

The concept of "e-invoicing" sits along a broad spectrum of possible solutions with different levels of digital procurement maturity.

At its most basic "e-invoicing" can refer to relatively simple practice of a supplier manually scanning a paper invoice and emailing that invoice to the purchaser. The purchaser and supplier have an email record of the invoice. The purchaser will then manually review the scanned invoice and enter the details into their respective procurement system.

In this scenario there are no automated business rules confirming the validity of the invoice (i.e. matched to a purchase order or reflects contractually agreed terms) or automation that integrates the data from the invoice into the purchasers' finance or procurement systems. There is the benefit of an email with a digital copy of the invoice as a record of the fact that an invoice has been sent to the purchaser.

A more mature solution will be able to take the email invoice and using object recognition software and machine learning automate the data entry into the purchaser's finance or procurement system. This offers greater efficiency but will still require the purchaser to check the validity of the invoice creating cost and delay.

At the more sophisticated end of the spectrum "e-invoicing" encapsulates end-to-end digitalisation of the entire procurement process. This includes the sourcing, contracting, buying goods or services from the buyer through to the payment of the final invoice. Under this scenario the buyer and seller will know immediately whether the invoice submitted is valid. The data flows immediately into the purchaser's procurement and finance system, and both parties are able to monitor and track payment to the seller with integration to the payment process.

SAP calls this more sophisticated end-to-end conceptualisation "Source-To-Pay" (**S2P**) and is expanded on at **Attachment A**.

It is important to recognise that for some businesses there is not a single approach to improving S2P processes. In some cases larger vendors may wish to take an incremental approach or a multi-channel approach to managing sophisticated procurement. For example, SAP has a number of market solutions that improve the efficiency of procurement with different levels of sophistication and scope.

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## 2.2 FACTORS TO CONSIDER RE PEPPOL E-INVOCING

The Australian Government has adopted the PEPPOL standard as the foundation to support the economy wide digitisation of procurement. PEPPOL is an enabling element of a S2P by acting as an electronic directory to connect purchasers and suppliers and enable them to share invoice data in a standardised format. SAP fully supports the governments mission as highlighted by our procurement platforms establishing connections into PEPPOL Access points.

However, while PEPPOL will form an essential element of Australia's e-invoicing system, it alone will be insufficient to achieve the benefits identified by the Discussion Paper (DP). For example, while PEPPOL performs a critical role by helping a supplier ensure an electronic invoice is sent to the correct purchaser for approval and in the standardised format, PEPPOL doesn't confirm whether an invoice is linked to a valid purchase order or accurately aligned with the terms for price and quantity of goods agreed between purchaser and supplier.

Furthermore, unless integrated into a broader S2P business process PEPPOL will not by itself resolve the many friction points larger organisations face when processing payments. For example, without platforms that integrate into banking systems, large organisations processing thousands of transactions will be unable to readily identify the cause of delay in payments, which may be the result of bank or purchaser failure, insufficient funds being available in the purchaser's account or the supplier providing incorrect account details.

Without this additional digital infrastructure, the benefits the Government wishes to derive from an economy-wide system of e-invoicing from faster payment times and reduced payment disputes will not be realised. Accordingly, in our submission, to realise this full potential we recommend the Government to pursue a S2P approach, including e-invoicing, across the Australian economy.

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### 2.3 QUESTION 1 - BARRIERS TO BUSINESS ADOPTING PEPPOL E-INVOICING

Many of SAP's large Australian corporate customers have already adopted e-invoicing into their procurement processes.

SAP's experience indicates there are two major barriers to Australian businesses adopting PEPPOL e-invoicing as a tool to accelerate payments.

Firstly, medium to larger-sized Australian businesses that have adapted and automated their procurement processes to be compatible with an existing e-invoicing platform that is working well are likely to be cautious about switching to a PEPPOL standard and associated change management costs. Businesses in this cohort will need to be persuaded that the benefits of adopting PEPPOL e-invoicing outweigh the cost and disruption that could accompany the necessary business process changes.

Secondly, for smaller businesses the perceived cost and complexity of switching from paper-based manual procurement processes are likely to be a barrier to adopting PEPPOL e-invoicing. This consideration is likely to be a greater barrier for smaller business who do not have any degree of existing exposure to e-invoicing, and a lesser barrier to those which have gained some exposure to e-invoicing through their own customers. This concern may be alleviated to the extent which smaller businesses can "piggyback" off the procurement platforms of their larger customers.

To facilitate the widescale adoption of PEPPOL e-invoicing by Australian businesses, SAP considers it would be valuable to obtain further data and research about the extent to which e-invoicing has already been adopted by business and the level of maturity of those businesses along the S2P spectrum. SAP would consequently recommend the Government consider undertaking an **e-invoicing maturity health check survey** of a representative sample of small, medium and larger Australian businesses, to provide the most accurate and insightful picture of the current state of play. This will further gather an appreciation of the change management required by smaller and larger businesses to move to a PEPPOL compliant process. SAP would be happy to support and partner with the Government on such activities.

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### 2.4 QUESTION 2 – COSTS AND BENEFITS OF PEPPOL E-INVOICING

We reiterate that the full benefits of e-invoicing can only be fully realised through the establishment of a mature digital S2P system across the Australian economy.

Many of these benefits will unfortunately be unobtainable if a more limited approach to e-invoicing takes hold in Australia. A basic approach to e-invoicing – exchanging invoices, even if to a PEPPOL standard by email which continue to be supported by paper-based manual processing behind the scenes – will not incorporate, for example, the electronic validation processes offered by a S2P process and supporting system.

Without the infrastructure provided by S2P, the broader economic benefits of e-invoicing will also not be realised, particularly speeding up payments to small business and accelerating the circulation of money in the economy.

If combined with an increase in S2P maturity, SAP broadly agrees with the Government's explanation of the potential benefits PEPPOL e-invoicing offers to the Australian economy and the Australian community, as described at pages 6 to 7 of the DP.

In particular:

- A connected e-invoicing capability is more efficient than traditional paper-based invoicing. E-invoices can be exchanged without the need for printing, re-keying, posting or emailing of invoices. This reduces processing time and costs for suppliers and purchasers. A S2P e-invoicing system can also incorporate electronic validation measures to reduce human error and automate payment processing.
- A S2P system of e-invoicing can result in faster payments from purchasers to suppliers, as discussed elsewhere in this submission. A S2P connected process can also reduce the occurrence of human error associated with paper-based manual processing such as lost invoices and incorrect payments details which can cause payment delays.
- A S2P system of e-invoicing is more accurate and secure than traditional stand-alone invoicing. The PEPPOL network will act as an electronic directory to accurately connect purchasers and suppliers and facilitate the exchange of invoice information in a standardised format. Leveraging a S2P system is also more secure than exchanging invoices through post, fax or regular email.
- A S2P system that allows for connectivity to a common standard that is compatible with the existing software and systems for large and smaller businesses. The Australian Government has adopted the PEPPOL standard.
- The digitalisation of invoicing data through an end to end S2P system will unlock access to faster, more accurate and complete data, supporting real-time data-driven decision-making for business in relation to cash flow, procurement and stock management.

At **Attachment A** is a diagram illustrating the benefits of a S2P system (including e-invoicing) for both buyers and suppliers. As the diagram demonstrates:

- A connected S2P system allows buyers to complete each step of the procurement process efficiently and electronically, from sourcing a product or service, creating a contract, buying compliantly right through to paying the final invoice correctly.
- Similarly, a connected digital S2P process allows suppliers to complete each step in the sales process efficiently and electronically, from creating market offers, bid for orders, fulfill those orders and receive payment to settling invoices securely and predictably.
- By eliminating paper-based processing and facilitating remote collaboration S2P e-invoicing is also more environmentally friendly.

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## 2.5 QUESTION 3 - SHOULD ADOPTION OF PEPPOL E-INVOCING BE MANDATORY?

SAP strongly supports the Australian Government’s initiative to drive the uptake of PEPPOL e-invoicing across the economy and its decision to have all Commonwealth Departments and Agencies able to process and leverage a PEPPOL e-invoice.

However, we caution whether mandating the adoption of PEPPOL is the most effective way of encouraging Australian businesses to embrace digital S2P and the many benefits it offers.

While SAP has made all its procurement platforms connected with PEPPOL access points, we are cognisant that mandating the standard could be and disruptive for large businesses that have already made significant investments in e-invoicing platforms and standards, as outlined elsewhere in this submission. The many thousands of Australian businesses operating on SAP platforms can enable their systems to interact with PEPPOL, if they see value in doing so.

SAP instead recommends the Government consider:

- non-regulatory options to incentivise larger businesses to continue to invest in mature S2P e-invoicing processes;
- options for incentivising larger buying organisations to onboard smaller businesses onto S2P e-invoicing platforms in particular by allowing small business suppliers to connect to larger business purchasers’ own investment into such platforms; and
- Undertake further research to better understand the state of digital procurement maturity in Australia and change management, SAP would be happy to assist in this work.

### 3. PART 2: CONSULTATION QUESTIONS ON E-INVOICING AND PAYMENT TIMES

#### 3.1 QUESTION 1: WOULD ADOPTION OF PEPPOL E-INVOICING RESULT IN A REDUCTION IN PAYMENT TIMES FROM LARGE TO SMALL BUSINESS AND, IF SO, HOW WOULD THIS REDUCTION OCCUR?

Economy wide adoption of PEPPOL e-invoicing will not in of itself significantly reduce payment times. Economy-wide adoption of PEPPOL as part of a S2P e-invoicing digital process would result in a reduction of payment of payment times from larger to smaller businesses.

Widespread adoption of and increasing mature digital S2P platforms would facilitate faster payments from large business purchasers to smaller business suppliers through the greater efficiencies and increased accuracy and security that this will deliver over traditional paper-based, manual invoice processing.

The insights that SAP has gained through observation of the growth in the number of users and volume and quantum of procurement activities on our Ariba and Concur platforms indicates that the benefits are likely to grow exponentially as more and more businesses adopt “procure-to-pay” e-invoicing, through the “network effects” described in the DP.

#### 3.2 QUESTION 2: WHAT OTHER ACTION COULD THE GOVERNMENT TAKE TO REDUCE PAYMENT TIMES FURTHER?

To facilitate broader adoption of PEPPOL e-invoicing by Australian businesses SAP considers it would be valuable to obtain further data and research about the extent to which Australian businesses

have already adopted e-invoicing and the level of maturity of those businesses along the S2P spectrum.

SAP recommends the Government consider undertaking an e-invoicing maturity health check survey of a representative sample of Australian businesses to provide the most accurate and insightful picture of the current penetration of e-invoicing and level of digital maturity across the economy. AP would be pleased to discuss how such a survey may be delivered with the Government.

SAP would also like to draw the Government's attention to the opportunity that exists within large corporate and government organisations to reduce the friction and improve the automation at the payment step. Increased automation and greater auditability at this step are further areas which can speed up the time taken to pay small to medium businesses.

This is the step after an organisation has met all internal process requirements to approve the payment. At this point it must make a request to its banking institution(s) to transfer money to a vendor.

For large organisation this can involve thousands, if not hundreds of thousands of transactions. With such large volumes of transactions, there are inevitably issues that arise. These can range from technical issues regarding the batch request to the bank, through to failed transactions as a result of errors in banking details. Unless resolved quickly, these issues may lead to delays in payment of suppliers.

Improvements in transparency and auditability at this step which allow organisations to quickly identify where problems have arisen, which transactions have failed and visibility of where the transaction is with the banking institution will allow for faster payment of suppliers.



ATTACHMENT A

## Connecting Source to Pay Processes for standardisation, visibility & compliance

The diagram illustrates the integration of source-to-pay processes through the SAP Ariba Network. It is divided into two main sections: **BUYERS** and **SUPPLIERS**.

- BUYERS:** The process flow includes Buyer Management, Market, Fulfill, and Settle.
- SUPPLIERS:** The process flow includes Source, Buy, and Pay.
- SAP Ariba Network:** A central blue bar connects the Buyer and Supplier processes, with bidirectional arrows indicating data and transaction flow.

Surrounding the central diagram are several key benefits and components:

- Truth:** Represented by a shield icon, indicating data integrity and transparency.
- Efficiency:** Represented by a gear and person icon, indicating streamlined processes.
- Price Reduction:** Represented by a scissors icon with dollar and euro symbols, indicating cost savings.
- Smart Network:** Represented by a network icon, indicating a connected ecosystem.
- Suppliers:** Represented by a group of people icon, indicating a diverse and engaged supplier base.
- Contract Compliance:** Represented by a document icon, indicating adherence to terms and conditions.

Connecting sourcing and contract processes to the buying and payment processes drives compliance, efficiency and adoption. For example, if an invoice received by a buying organization matches the purchase order which reflects the terms and conditions (including the pricing) in the contract then this invoice can automatically be settled without being touched. A smart network with embedded business rules facilitates this to give a great experience to buyers and suppliers across the whole value chain. Access to the network only requires a browser with internet connection and there are currently over 2 million supplier using the SAP Ariba network globally.

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