

# Credit Note Procedure (ERS): Accounts Payable Processing Without Classic Invoice Receipt Processing

The credit note procedure, internationally also known as Evaluated Receipt Settlement (ERS), is a method for processing supplier payments in which the invoice is not issued by the supplier but generated by the customer itself based on the goods receipt. The basis is the order prices from the purchase order and the quantities received in the goods receipt. The procedure reduces processing effort, eliminates typical sources of invoicing errors and supports a largely automated accounts payable function.

## Key facts

- In the credit note procedure (ERS), the customer generates the settlement itself – from order data and goods receipt quantity, without a supplier invoice.
- Payment approval frequently takes place automatically according to defined approval rules and payment cycles.
- Typical savings potential lies in reducing invoice verification effort and process costs per document.
- Prerequisites are agreed prices (PO Order), clean goods receipt capture and stable supplier relationships.
- The right of objection and settlement reconciliation with the supplier must be clearly regulated contractually.

## Definition: Credit note procedure (ERS)

In the credit note procedure, the buyer creates a credit note or internal invoice itself based on the purchase order and the posted goods receipt, thereby triggering payment. The supplier does not issue a classic invoice; the settlement results automatically from the quantity multiplied by the agreed order price. In the Anglo-Saxon world, the procedure is known as Evaluated Receipt Settlement (ERS) or Pay-from-Receipt.

## Distinction from classic invoice verification

In classic three-way matching, the purchase order, goods receipt and supplier invoice are compared, approvals are distributed and deviations are clarified. In the credit note procedure, the invoice as a separate document is dispensed with entirely; the goods receipt becomes the settlement-relevant factor. This significantly reduces the verification effort per document in practice, typically to a fraction of the cost of a manually verified document. However, the customer takes on more responsibility for the data quality of the purchase order and goods receipt posting.

## Two-way instead of three-way matching

Technically, the verification process is reduced to a two-way match between the purchase order and the

goods receipt. Price and conditions are already fixed in the framework agreement or in the PO Order, so the price comparison with an invoice is no longer required. However, quantity differences due to partial deliveries, follow-up deliveries or returns must be mapped cleanly in the system, otherwise the settlement basis becomes incorrect.

## **Methods and approach: Introduction and process of the credit note procedure**

The introduction of the credit note procedure follows a structured rollout: suitability assessment of suppliers, contractual agreement, process and system configuration, and accompanying supplier management. Not every product group and every supplier is equally suitable; critical factors are price stability, delivery quality and the system capability of the partner.

### **Suitable areas of application**

In practice, the procedure proves itself particularly for standardised repeat purchases: C-parts, connecting elements, operating and auxiliary materials, catalogue goods and framework orders with fixed prices. Advantages are low price dynamics, low complexity in customs tariff classification (domestic business or duty-paid delivery) and a high service level target per product group with predictable delivery. In the case of contract manufacturing with additional services or subsequent requests for documents, use is rarely sensible.

### **Contractual basis**

The conversion to ERS should be regulated via a framework agreement or an annex to the supplier contract. Essential contents: settlement period and payment terms, treatment of price changes including price escalation clauses, procedure in the event of quantity or quality deviations, objection periods for the supplier, and the digitisation of document transfer. Export control and tax aspects – such as requirements of the tax authorities for credit notes and VAT documentation – should also be reviewed in advance on a case-by-case basis.

### **Process in the standard case**

The process typically follows six steps: (1) purchase order with a binding price and ERS indicator, (2) delivery with accompanying documents, (3) automatic goods receipt with quantity capture, ideally with a supplier certificate and digital quality documents, (4) creation of the ERS credit note after a predefined settlement period, (5) automatic payment trigger with payment advice to the supplier, (6) reconciliation and clarification of deviations in exceptional cases. For high-volume business, settlement can be bundled daily, weekly or monthly.

## **Key KPIs and benefit assessment**

The success of the credit note procedure can be measured cleanly using process and financial metrics. A clean baseline before the changeover is a prerequisite so that benefits and effort can be compared within the framework of a supplier rating and regular reviews.

### **Process and cost metrics**

Key metrics are the processing costs per document before and after the changeover, the touchless rate (proportion without manual intervention) and the lead time from goods receipt to payment. In practice, a cleanly established ERS achieves a touchless rate of frequently over 90 per cent, while classic invoice

processes are significantly below this. A total cost calculation across all process steps, including exception cases and correspondence, is also worthwhile.

### **Data quality and exception-case rate**

Decisive is the exception-case rate: unknown purchase orders, unposted goods receipts, price or quantity differences. An exception-case rate of a few per cent is ambitious but achievable if master data and ordering processes are managed with discipline. The supplier also benefits: payment is calculable, and in the supplier rating, ERS capability can be evaluated as a criterion.

### **Liquidity and discount aspects**

Because payment under ERS is triggered independently of invoice receipt, the payment date can be controlled: the customer can bundle payment cycles and systematically agree early-payment or discount models. Conversely, suppliers lose the lever of wanting to deliver faster in order to be paid faster – this effect should be addressed openly in discussions with suppliers.

## **Risks and controls in the credit note procedure**

The credit note procedure shifts verification obligations to the buyer. Without suitable controls, there is a risk of over- or under-settlement, compliance risks and friction losses with suppliers. Risk analysis and control design therefore belong in the rollout from the very beginning.

### **Data and process risks**

Common weak points: incorrect or missing prices in the purchase order, duplicate goods receipt postings, open residual quantities after partial deliveries, and manual receipt postings without document linkage. Even for emergency orders outside the standard process, there is a risk that no ERS-capable PO exists. Clear rules should therefore exist as to which transactions must be settled on the basis of ordered and received quantities and which remain excluded.

### **Control architecture**

Effective controls include: the four-eyes principle for price changes and price escalation clauses, tolerance rules for quantity and price deviations with automatic blocking, periodic counter-reconciliation (reconciliation of ERS credit notes against delivered quantities and open items), and samples per supplier and product group. For parts relevant to criticality and material compliance (e.g. raw material ingredients or required certificates), ERS should only apply if the documentation is available in full. For customs and foreign trade matters, a reconciliation on customs tariff classification with the customs or customs agency department is recommended.

### **Supplier acceptance and change management**

Not every supplier accepts the changeover immediately: they must adapt internal processes, self-monitoring and, if necessary, accounting, and can object to the credit note. Early supplier discussions, binding regulations on the right of objection and transparent settlement advice are important. As a lesson learned from many rollouts: start with a pilot group of trusted preferred suppliers, stabilise the processes and then expand step by step.

## **Current developments and digitalisation**

The credit note procedure continues to gain in importance through automation. Electronic documents,

EDI and API interfaces as well as machine-learning-supported exception-case processing further reduce manual effort and make ERS viable for more complex product groups as well.

### **Automation and data exchange**

Modern setups use EDIFACT- or API-based exchange for order confirmation, despatch advice and payment advice. Automatic goods receipt postings via barcode, RFID or plant software increase data quality; mobile receipt capture significantly reduces posting errors. Ideally, ordering, receipt, settlement and payment run touchlessly – an important component of operational supply chain resilience, because processes continue to function even in the event of staff absence.

### **Linking with procurement strategy**

ERS is not an end in itself, but part of a holistic supplier strategy. Those who regularly monitor the market and deliberately select suppliers can combine ERS with other instruments: framework agreements with price escalation clauses, defined MOQ rules (minimum order quantity) and agreed service levels. Sustainability and compliance topics – such as CO data per delivery for capturing Scope 1 emissions at one's own site or with the transport provider – can also be better linked with structured receipt data.

### **Legal framework**

Tax and accounting requirements for credit notes differ by country and change periodically; the design should always be reviewed on a case-by-case basis with the tax and legal departments or external advisors. In cross-border transactions, the contractual interplay of governing law, payment terms and dispute resolution is also important so that objections to ERS credit notes are clearly regulated.

## **Introduction step by step**

Anyone wishing to introduce the credit note procedure should not start technology-driven, but with a clean process design: identify suitable product groups, select suppliers, adjust contracts and define metrics. A controlled pilot avoids costly misdirection in high-volume business.

### **Pilot design and selection criteria**

Suppliers with high order volumes, stable quality and high process discipline are suitable for the pilot – ideally those already using digital data exchange. The selection criteria should be documented (volume, number of items, exception-case history, delivery quality) and incorporated into the supplier rating model. This makes it possible to later objectively trace why which supplier is participating.

### **Rollout and optimisation**

After a successful pilot, the rollout proceeds in waves: per supplier, onboarding, contract adjustment, test settlement, then productive changeover. In parallel, key metrics should be continuously monitored and exception cases systematically analysed. Regular lessons-learned rounds with procurement, logistics, quality and finance ensure that processes and rules grow with practice.

## **Typical metrics**

### **Touchless rate: > 90 %**

Proportion of ERS transactions processed automatically without manual intervention

**Exception-case rate: < 3 %**

Proportion of settlements with quantity, price or master data deviations

**Processing costs per document: significantly below the classic level**

Benchmark against manual three-way matching as a baseline

**Lead time from receipt to payment: < 10 working days**

Depending on the agreed payment cycle and payment terms

## Practical example

A medium-sized mechanical engineering company with around 12,000 purchase order items per year converted its C-parts procurement (screws, standard parts, operating supplies) to the credit note procedure. Previously, almost every invoice went through manual three-way matching with a high exception-case workload. Following a pilot with four partners within six months, a phased rollout to around 30 suppliers followed, accompanied by adjusted framework agreements and automatic goods receipt capture.

- Conversion of approx. 40 % of the order volume to ERS, starting with catalogue-based C-parts purchasing
- Introduction of a supplier credit note with payment advice via EDI and consolidated monthly settlement
- Automatic tolerance blocks for quantity and price deviations with defined escalation paths
- Quarterly counter-reconciliation and integration of ERS capability into the supplier rating

## Conclusion

The credit note procedure simplifies accounts payable processing by replacing the invoice with order and goods receipt data. It noticeably reduces processing costs, increases payment reliability for both parties and makes processes largely automatable. At the same time, it raises the requirements for master data quality, controls and contractual clarity. Those who start with a structured pilot, clear tolerance rules and selected suppliers can gradually extend the procedure to a volume-rich scope. ERS then becomes a load-bearing component of an efficient, resilient purchase-to-pay architecture.

## Frequently asked questions

**What does the credit note procedure (ERS) mean in procurement?**

In the credit note procedure, internationally known as Evaluated Receipt Settlement (ERS), the supplier does not issue an invoice. The customer calculates the payment claim itself based on the order price and the quantity actually received. Payment is then made automatically according to defined cycles and approval rules.

**When is the credit note procedure worthwhile for companies?**

It is particularly worthwhile where there is a high volume of line items, standardised products, stable prices and system-capable suppliers, typically in C-parts and call-off business. For complex contract manufacturing, variable surcharges or frequent subsequent changes, the effort usually outweighs the benefit. A total cost calculation across all process steps helps in the decision.

**What technical prerequisites does ERS require?**

Prerequisites are well-maintained material master data, binding order prices, a reliable, preferably automatic goods receipt capture, and interfaces for payment advice and reconciliation with the supplier. In addition, tolerance rules and exception-case processes should be stored in the system. Without solid purchase order discipline, ERS carries the risk of incorrect settlements.

### **Is a supplier credit note in the VAT sense the same as ERS?**

No. A supplier credit note is a separate tax document that the recipient of the services issues on behalf of the supplier. The credit note procedure (ERS) describes the entire self-billing process, which can also run electronically without a classic credit note document. The tax treatment should be reviewed on a case-by-case basis with tax advisors.

### **How do suppliers react to ERS and what applies in the event of objection?**

Experienced suppliers often accept ERS because of predictable payments and reduced invoicing effort. Critical points are quantity clarification and payment terms. The contract should therefore stipulate objection periods, an escalation-free exception-case process and settlement advice; in practice, a dedicated contact person per supplier has proven its worth.

### **Which KPIs show the success of the credit note procedure?**

Key metrics are the touchless rate, exception-case rate, processing costs per document, lead time to payment and the number of unplanned deviations per supplier. The comparison before and after the changeover shows the benefit. Analysing payment reliability and open residual quantities is also useful.