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Electronic Invoicing Simplifies Supply Chain Finance: Peru Case Study

Aquilino Flores started his clothing business out of necessity. He grew up in a small village in the Andes Mountains and when his father passed away, he had to find a way to provide for his family. Thirty years later, the company he founded with his brothers, Manuel, Carlos, Armando, and Marcos, is one of the most successful textile manufacturers in Peru. TopiTop provides income and opportunity for thousands of families while bringing the Peruvian textile tradition to the world.



Modern embroidery processing. www.topitop.pe

How One Company Survives and Thrives

Over three decades, the Flores brothers have built an organization that is highly resilient and adaptive to changing economic and political conditions. In the 70s, they had the confidence and perseverance to open a sewing shop and keep growing to meet retailer demand in the midst of great political uncertainty.

In the 80s and 90s, they took advantage of a growing export market for cheap textiles for export. At the same time, they opened a retail shop, selling their own designs to the domestic market. Meanwhile, the Peruvian economy nearly collapsed under hyperinflation and attacks against business owners by socialist militant groups.

At the turn of the century, TopiTop rode the wave of an economic boom. They became a textile provider to globally recognized brands like Hugo Boss, J.Jill and more, expanding production for export. Retail operations that catered to the emerging middle class expanded to 70 stores in Peru, Venezuela, and Ecuador. The company continues to innovate to stay competitive with close to 4,700 employees.

Strengthening the Supply Chain

Key to TopiTop's success is the strength of their supply chain. TopiTop has more than 1,300 suppliers, and the majority of local suppliers are small and medium-sized companies such as producers of dye, zippers, buttons etc., as well as a significant number of transportation companies, many of which are micro companies or independents.

AGC and our factor partner in Peru work with TopiTop to provide supply chain financing to the businesses in their supply chain. AGC's partner factor has developed an electronic invoicing platform, authorized by SUNAT (Peru's internal revenue service), that integrates with enterprise software used by large companies as well as off-the-shelf accounting software preferred by medium-sized businesses. They offer a free service to small and micro-sized businesses so they are able to send and receive invoices as easily as sending email.

The Transition to Electronic Invoicing

Invoicing in Peru is highly regulated. Companies must request government authorization for paper invoices and then purchase pre-printed invoices from specialized printing offices. To accept invoices, companies with many suppliers have designated days and locations where suppliers line up to submit paper invoices that are typed into company systems and the paper copy is archived.



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A mandate that companies **convert to electronic invoicing** by 2018 aligns Peru with the transition already underway in Argentina, Brazil, Chile, Colombia, and Mexico. By December 31, 2015, the first 6,000 companies are obligated to convert with 12,300 companies obligated to convert in 2016. By the end of 2018 paper invoices will no longer exist for close to 950,000 companies in Peru, including independents and freelancers.

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With electronic invoicing, the government authorizes designated platform providers to manage these transactions digitally. Suppliers enter invoices into the platform, and the information is securely transmitted to the buyer and to the internal revenue service. There is no standing in line, no archiving, no typing data into different systems, increasing efficiency and reducing errors.

TopiTops uses the factor's invoicing platform to accept invoices and integrate them into their business operations system. The factor offers the suppliers the option to request immediate payment at a discount or wait the full 90-day term for payment. Suppliers gain access to working capital at an attractive rate based

on the credit profile of TopiTops. TopiTops, in turn, is able to manage their own balance sheet more effectively while addressing the needs of their suppliers.



A modern spinning plant with fully automated processes can produce 600 tons of thread into knit fabric per month. www.topitop.pe

The Challenge of an Emerging Middle Class

Peru is one of the fastest growing economies in the world. While there is still a large gap between the rich and poor, a middle class is emerging. And TopiTops' retail operations have been there to meet the growing demand for reasonably priced clothing designed and manufactured "at home".

However, a growing economy has also raised labor rates, causing global brands to take their business to lower-priced manufacturers in other countries. Rather than chase cheap labor, TopiTops upgraded their operations to compete on quality and efficiency over price. In the past 10 years, they have invested in five new textile plants with the latest machinery and highly trained staff, as well as a data center from SAP to run operations, logistics, engineering, and planning. In 2003, they received the top honor of Gran Comendador de la Orden de Trabajo, awarded by the Peruvian Ministry of Labor and Employment, and obtained the ISO 9001 – 2000 quality certification, governing their plants and industrial processes.

Today, the company has the capacity to produce 3.5 million garments per month with a focus on high quality, timely delivery, and competitive pricing. While 70% of their business is manufacturing for export, they have also become the largest clothing retailer in the region with 70 stores in Peru, Venezuela, and Ecuador.

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