

# Are You Ready for E-invoicing?



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# Introduction



“The Commission aims to remove all obstacles, regulatory or technical, that prevent the adoption of e-invoicing.”

In today's fast changing world, where information flows more freely and connections are made in a click, enterprises are under increasing pressure to perform. One way to deal with this challenge is to simplify processes and opt for the digitization of customer communications. This move enables organizations to cut costs and improve productivity.

One area where this has been clearly demonstrated, by both buyers and suppliers, is that of e-invoicing. By making the transition from physical to digital invoicing many enterprises are reaping the benefits of a more reliable, secure, traceable and streamlined process. Up until around five years ago e-invoicing solutions were principally developed for large enterprises. However new solutions, specially developed for SMEs (Small and Medium-sized Enterprises), are gaining market share.

The European Commission has a clear digital agenda for Europe and electronic invoicing has a major role to play in this initiative. The Commission aims to remove all obstacles, regulatory or technical, that prevent the adoption of e-invoicing. The mass adoption of e-invoicing (public and private sector) within the EU could lead to significant economic benefits and it is estimated that moving from paper to e-invoices will generate savings of around €240 billion over a six-year period.<sup>1</sup>

The U.S. Department of Treasury doesn't have such regulations yet, but recognizes that e-invoicing would reduce costs by 50% and would save about \$450 million each year.<sup>2</sup>

Currently the rules that govern e-invoicing are fragmented and based on national requirements. The potential market for e-invoicing is huge.

The European Commission defines **electronic invoicing** (e-invoicing) as the “**electronic transfer of invoicing information** (billing and payment) **between business partners** (supplier and buyer). It is an essential part of an efficient financial supply chain and it links the internal processes of enterprises to the payment systems”.

(European Commission, 2013)

<sup>1</sup> SEPA potential benefits at stake, Capgemini, 2009

<sup>2</sup> <http://www.treasury.gov/press-center/press-releases/Pages/tg1238.aspx>

# 1. SME Pain Points

In February 2014, Neopost appointed Opinion Way to launch a market study in order to better understand the pain points and needs from SMEs concerning incoming and outgoing invoices.

“Are you experiencing the following issues as far as invoices are concerned?”

	Yes
• Wasting time on repetitive tasks	47%
• Risk of human errors in the processes of outgoing communications	45%
• Spending time gathering information from different systems	40%
• Having to re-enter data several times throughout the process	37%
• Having difficulty finding or retrieving past communications across communication channels	34%
• Having trouble tracking all communications with a given client across communication channels	33%
• Lacking visibility and traceability on what your organization sent to whom and when	26%
• Lack of control on the security of the storage of documents	25%

Source: Opinion Way market study - February 2014

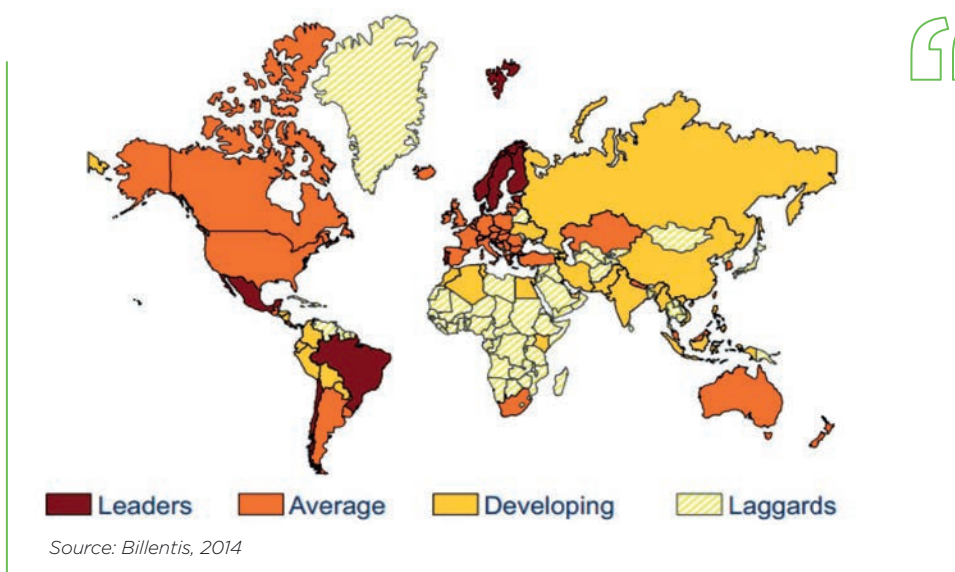


## The main pain points experienced by SMEs are the following:

- **Time** spent on: repetitive tasks, approval processes and the search for documentation
- **Lack of traceability** and visibility on the state of payments
- **Lack of reliability** due to: risk of human errors, late payments or legal issues

## 2. E-invoicing Market

Norway, Sweden, Finland, Mexico, Chili and Brazil are considered as leaders in e-invoicing. This is because e-invoicing is a legal requirement in a certain number of these countries and because national governments have made it an obligation for organizations to invoice electronically.



**About 500 billion invoices are issued globally every year.** 330 billion are B2C and 170 billion are B2B and B2G.

Source: Billentis, 2014

### 2.1 European e-invoicing market

In the European market, legislation and local public initiatives are the key drivers. The European Commission has estimated that the adoption of e-invoicing in public procurement alone across the European Union could generate savings of up to €2.3 billion a year.

The Nordic countries are seen as e-invoicing leaders: e-invoicing to the public sector has been mandatory since 2005 in Denmark, since 2008 in Sweden and since 2010 in Finland.

And in Norway, electronic invoicing has been mandatory for government administrations since July 1st 2012 and for local government since January 1st 2015.

In Italy, e-invoicing has been in place for public authorities since June 6th 2014 and in Spain since January 1st 2015.

Following the 2014/55/EU Directive on e-invoicing and public procurement in April 2014, suppliers will be obliged to send electronic invoices to the public sector in all European countries by 2020.





## 2.2 U.S. e-invoicing market

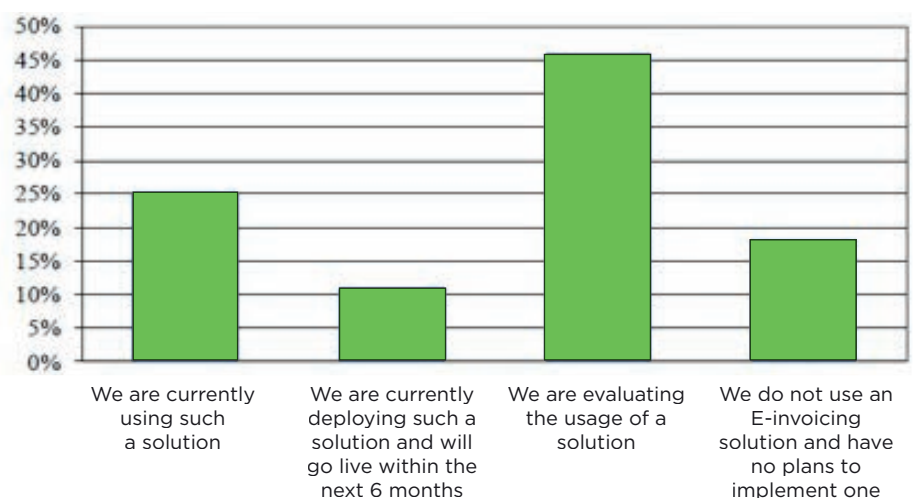
Outside the European Union, market penetration of e-invoicing is growing substantially and, as Infotrends forecasts, 8.6 billion (35%) consumer bills and statements will be delivered as paperless in 2017 in the U.S.

A recent survey conducted by PayStream Advisors confirms the U.S. Account Payable (AP) Automation Market revenue reached \$1.7 billion in 2013, which is an 11.9% increase from 2012. "The AP Automation Market based delivery will experience healthy growth through 2016, when worldwide revenue is projected to reach \$2.4 billion."

The current status is growing steadily with over 80% of the companies surveyed having already adopted or evaluating e-invoicing technology.

In a paper entitled "Tax Compliance E-invoicing", Trust Weaver explains the difference between European and U.S. regulations: "the sales tax levied in the U.S. operates differently from VAT in that invoices between businesses are not taxed. Instead, the end of the production chain – the final transaction with the consumer – is subject to a tax rate that is often composed of percentages imposed by state, city, county and other administrative bodies. Enforcement of this tax does not revolve around B2B invoices, which explains why the level of e-invoicing requirements for e-invoicing between companies in the U.S. is lower than that in countries with VAT. »

### Adoption of E-invoicing Solutions in US companies



22% of small enterprises and 43% of medium-sized enterprises are using e-invoicing solutions.



# 3. E-invoicing Regulations

## 3.1 European regulations

In February 2014 Neopost asked Opinion Way to interview 280 SMEs in the UK with under 500 employees. The following question was asked: "Are you aware of specific compliance issues linked to electronic invoicing (e-invoicing)?" 63% admitted that they did not know the rules and regulations related to electronic invoicing.

### European Directives on e-invoicing:

#### Council Directive 2010/45/EU of 13 July 2010 on e-invoicing (amending Directive 2006/112/EC)

The main objectives of this Directive are the simplification, the modernization and the harmonization of VAT invoicing rules. The main requirements on e-invoicing set by this Directive are that the authenticity of the origin, the integrity of the content and the legibility of the invoice must be guaranteed.

Different methods are allowed for e-invoicing:

- business controls which create a reliable audit trail
- advanced electronic signatures
- Electronic Data Interchange (EDI)

Invoices must be stored in the original form in which they were sent or received, whether paper or electronic.

This Directive 2010/45/UE was transposed by Member States on January 1st 2013.

#### Council Directive 2014/55/UE on e-invoicing in public procurement

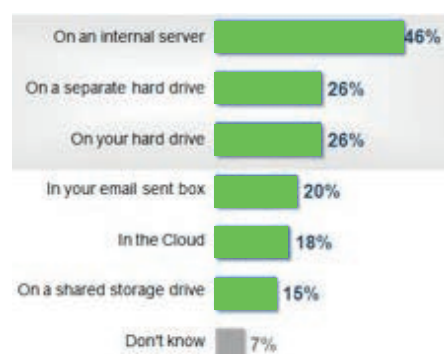
The Directive 2014/55/UE aims to overcome the disparity of e-invoicing practices in different EU Member States which makes it difficult for businesses to deal with public sector clients across borders.

A common European standard for the semantic data model of the core elements of an electronic invoice (the 'European standard on electronic invoicing') should be developed. The Commission estimates that such e-invoicing could make savings of up to €2.3 billion.

Member States must implement the Directive by 27 November 2018 at the latest. States will have 18 months to ensure that they comply with this standard.

The European Commission has called for e-invoicing to become the predominant invoicing mode in the EU by 2020.

## When electronically archiving your documents, do you archive them?



Source: Opinion Way - February 2014 (280 UK SMEs)

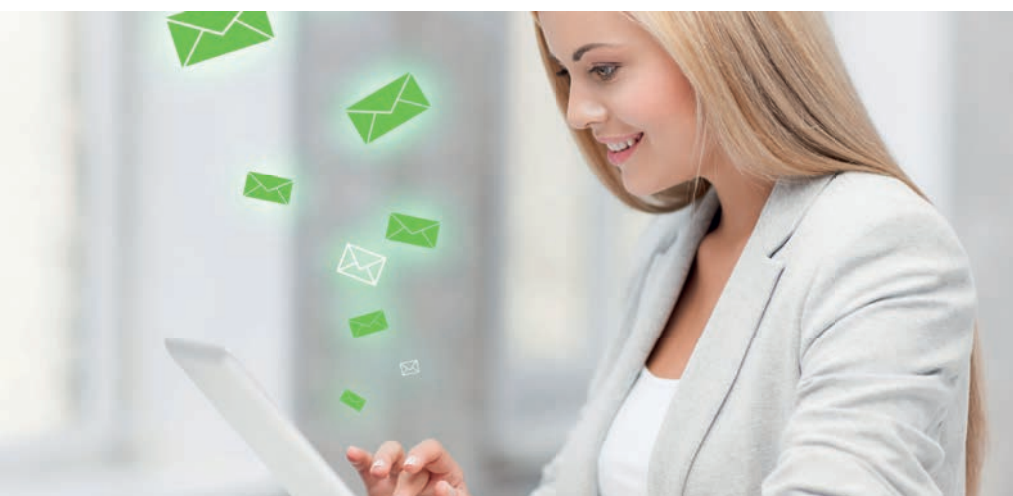
## 3.2 U.S. regulations

### The Internal Revenue Service (IRS) has published guidelines for taxpayers that maintain books and records by using an electronic storage system<sup>3</sup> :

- An electronic storage system must ensure an accurate and complete transfer of the hardcopy or computerized books and records to an electronic storage media. The electronic storage system must also index, store, preserve, retrieve, and reproduce the electronically stored books and records.
- An electronic storage system must include:
  - reasonable controls to ensure the integrity, accuracy, and reliability of the electronic storage system;
  - reasonable controls to prevent and detect the unauthorized creation of, addition to, alteration of, deletion of, or deterioration of electronically stored books and records;
  - an inspection and quality assurance program evidenced by regular evaluations of the electronic storage system including periodic checks of electronically stored books and records;
  - a retrieval system that includes an indexing system (within the meaning of section 4.02 of this revenue procedure);
  - the ability to reproduce legible and readable hardcopies (within the meaning of section 4.01(3) of this revenue procedure) of electronically stored books and records."

<sup>3</sup><http://www.irs.gov/pub/irs-tege/rp-97-22.pdf>

# 4. How to E-invoice



## 4.1 Two different formats

### 4.1.1 PDF

The supplier who decides to send an invoice by PDF has 2 options:

- send a simple PDF and, in this case, the supplier and the client have to ensure that internal business controls are in place to create a reliable audit trail in case of tax control;
- use an electronic signature which guarantees the integrity and the authenticity of the document (see paragraph below).

This PDF method is quite easy for the sender, but implies that the recipient has to either input the invoice data manually into his Accounting system or automate the process using a data capture solution.

### 4.1.2 EDI (Electronic Data Interchange)

With the EDI solution, the customer and the supplier have to set up a specific invoicing data format (such as XML, EDIFACT...).

It is often the customer who imposes his format on his suppliers as this method allows recipients to automate their entire invoicing process.

The EDI is complex and costly from a supplier's point of view as he has to manage a different EDI invoicing format for each customer.

By implementing EDI, the supplier and customer have also to adhere to specific legislation on EDI such as for example the mandatory trading partner list in France.

## 4.2 Authenticity and integrity

The authenticity and the integrity of the electronic invoice (either in PDF format or EDI format) can be guaranteed by an electronic signature.

By using an electronic signature, the sender has to make sure whether the electronic signature required by his country is an advanced or a qualified electronic signature.

An advanced electronic signature is a software-based electronic signature whereas a qualified electronic signature is a hardware-based one.

## 4.3 Electronic archiving

Depending on local regulations, some countries may ask parties to store the invoice in its original format. This means that if the invoice was sent in an electronic format, it will have to be archived electronically during all the legal archiving period of time.

## 4.4 Different e-invoicing methods

PDF and EDI files can be delivered in different ways.

### 4.4.1 Email

This way of delivery may seem to be the simplest, but it could lead to complex and time consuming retrieval if it is not properly archived in an electronic way.

In order to be properly handled by the recipient, it is recommended to send it to a department email address and not to a personal accountants email address.

### 4.4.2 Web Portal

In this case the customer asks the supplier to manually input all the data from the invoice onto a web portal.

This is extra work for the supplier who has to input data into both his accounting system and the customer's web portal. Such a method increases the risk of human error. However it often allows the supplier to track the approval and payment of his invoices.

The main benefit is on the customer's side as it allows him to automate his entire invoicing process (invoice data input, invoice matching with delivery, invoice approval and payment).

### 4.4.3 E-invoicing Service Providers

This solution involves a third party, an e-invoicing service provider, who implements and supports e-invoicing processes and archiving on behalf of suppliers and/or customers. This third party deals with the complexity of different EDI invoicing formats and interoperability between the different service providers.



# 5. Business Benefits of E-invoicing

## 5.1 For suppliers and buyers

### E-invoicing enables you to:

- Reduce processing costs by around 60% for outgoing and inbound invoices
- Improve the visibility and traceability of invoices
- Automate repetitive tasks
- Facilitate access to archived invoices at anytime, from anywhere, using any device
- Improve day-to-day efficiency
- Save time on the overall process of invoicing
- Improve the supplier-customer relationship

## 5.2 For governments

### Many governments have decided to impose e-invoicing in order to tackle VAT fraud.

Some of them, essentially in Central and Southern America, have even decided that electronic invoices have to be sent to the tax administration for authorization prior to being issued to the final customer. With such a method, the tax administration has more control of the transactions within companies.

### A 60% financial gain for outbound and inbound invoices

#### Outbound invoices

##### Paper process: about 10€



##### Electronic process: about 3€



#### Incoming invoices

##### Paper process: about 14€



##### Electronic process: about 4€



Source: Arthur D. Little, 2001



## 6. Market Trends

### 6.1 Accelerate invoice payment

The UK Institute of Directors conducted a survey in December 2014 among 925 SMEs with fewer than 250 employees. This survey revealed that 66% of the SMEs are suffering from late payment of invoices and 50% said that the main reason for late payment was excessively bureaucratic payments systems<sup>4</sup>. Decreasing the DSO (Days Sales Outstanding) is key.

#### Invoice factoring

Factoring is an agreement where a supplier sells invoices to a factoring company at a discount and the factoring company pays the invoices immediately, meaning the supplier has instant access to cash and avoids bad debts. The issue is that this solution is still a high-cost financing option.

#### E-payment

Many accounting solutions enable you to display a “Pay now” button on B2B and B2C electronic invoices. This button enables immediate payment with a credit or a debit card and payment tracking. Once the payment is processed, the supplier receives an immediate notification.

#### Dynamic discounting

“Dynamic discounting” methods enable the supplier to be paid early on approved invoices in return for a discount. The earlier the payment is done, the greater the discount is. This solution is flexible and the supplier can choose to discount some or all of his receivables. Thanks to this solution, suppliers improve their cash flow.

### 6.2 Interoperability and partner networks

For over a decade, the main benefit of the e-procurement network was to transmit electronic purchase orders between buyer and supplier in order to reduce the cost of paper transmission and automate the order process.

Today, thanks to cloud-based infrastructures, partner networks enable suppliers and buyers to connect and to share all types of information such as catalogues, orders, contracts, invoices...

In April 2011, the Aberdeen Group market study demonstrated that networking platforms are now used to identify new suppliers and market opportunities (76%). There is also an increased desire to use the social and networking aspects from peer networking (20%)<sup>5</sup>.

In order to leverage the different partner communities and improve the network connections, the different service providers have to increase the development of interoperability.

### 6.3 Innovative and dedicated solutions for SMEs

Due to a lack of specific solutions available on the market, SMEs have remained underequipped in e-invoicing solutions and have had to develop costly proprietary solutions.

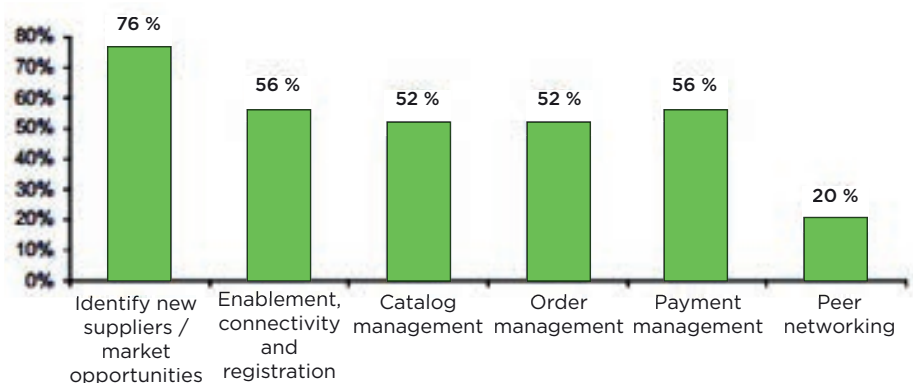
Thanks to SaaS (Software as a Service) and mobility technologies, easy-to-set-up and user friendly solutions have been developed in the market and are now available and affordable.

Those solutions will encourage the widespread use of e-invoicing by SMEs.

<sup>4</sup><http://www.iod.com/influencing/press-office/press-releases/two-thirds-of-smes-are-suffering-from-late-payment-finds-new-iod-survey>

<sup>5</sup><http://www.perfect.com/wp-content/uploads/2013/06/Supplier-Networks-Derivative-Aberdeen-Report.pdf>

#### Supplier Network capabilities



Source: Aberdeen Group, April 2011

# Conclusion

**Current e-invoicing regulations aim to make organizations more competitive. And the uptake of e-invoicing is being closely monitored by governments.**

The idea is to facilitate consistency across countries and create a seamless global e-invoicing ecosystem. Electronic invoicing speeds up business processes and increases the efficiency of business-critical transactions.

And as numerous solution providers have flooded the market to pave the way for adoption of e-invoicing on a broad-scale only one question remains. "Is your enterprise ready to make this transition from physical to digital invoicing?"

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“Is your enterprise ready to make this transition from physical to digital invoicing?”



