

E-invoicing comes of age

Corporates are looking at new ways of making the supply chain more efficient and improving key financial ratios such as days sales outstanding. Ian Watkinson and Lee Murphy of **The Royal Bank of Scotland (RBS)** explore how electronic invoicing can support these goals.

2008 is proving a pivotal year for e-invoicing. Adoption is on the rise, helping the discipline to move into the mainstream. In a recent survey of European banks conducted by Fundtech, 38% of respondents predicted that between a quarter and a half of their

customers would be using e-invoicing within three years. 15% of respondents were even more confident, estimating that over 50% of customers will adopt it in this period. The increased demand for e-invoicing facilities is driven by a range of commercial,

technological and regulatory factors:

- Corporates are exploring new angles for becoming leaner and meaner, having already adopted best practices and management philosophies such as 'just in time' delivery.

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- The supply chain itself is becoming dematerialised, as processes migrate to the internet and trade data becomes more accessible to counterparties and banks.
- The advent of the Single Euro Payments Area (SEPA) presents opportunities to bundle invoice data with new payment instruments.

Electronic invoicing is the generic term given to web-based services that allow purchase orders and invoices to be issued, received, approved, reconciled and archived electronically. Separate variations exist for accounts payable and accounts receivable activity, but both allow corporates to extract data from the web application directly into accounting systems. In turn, the data can be used for a variety of purposes, for instance creating payment instructions.

IT vendors have been offering e-invoicing services for a number of years, but proprietary data standards, high set-up costs, and the imposition of cumbersome practices on supply chain partners all acted as barriers to entry. However, the arrival of new entrants to the market is changing the landscape.

The new generation of e-invoicing services take the form of independent portals or hubs that sit outside of the client's firewall. This model is more efficient in that it negates the need to spend time and money on complex integration projects with existing ERP systems. Instead, the emphasis is on the secure flow of information between the portal and incumbent software.

Data conversion

In order to achieve the smooth flow of information between counterparties and e-invoicing systems, the portals use the 'any to any' data conversion principle. Supply chain partners can submit invoices in their 'regular' format. The portal then extracts the key elements of the document, places them into an XML template and translates them into the designated format of the customer.

The use of 'any to any' conversion tools is one of the main reasons why companies are becoming more comfortable and enthusiastic about adopting e-invoicing. These tools enable suppliers to carry on producing invoices in their usual format and ensure that they do not have to adopt

bespoke practices for specific buyers. Conversion tools effectively open up the entire invoicing spectrum, meaning that everyone, from the largest suppliers through to sole traders, can participate without incurring additional cost or inconvenience.

Once the data is in the portal, it is subjected to sophisticated validation checks to ensure that the information is correct and corresponds to purchase orders or other related documents. With validation confirmed, the portal sends the invoice to the relevant person or system for approval and payment.

Considerations

A plethora of statistics has been produced to highlight the tangible benefits of adopting e-invoicing. Perhaps the most eye-catching output comes from the 2007 EC sponsored European Electronic Invoicing Report which asserted that cost savings

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across the Community could total €238 billion over six years.

Companies looking to achieve cost savings through e-invoicing need to consider several fundamental questions as they assess potential systems and vendors, such as:

- Can the system be used in multiple territories?
- Is the system compliant with relevant VAT laws?
- How flexible is the workflow management system – can it be configured to suit the specific needs of the enterprise?
- Does the system use open standards, thereby opening up the ability to operate with other e-invoicing services and networks in the future?

- Does the service have messaging tools to help manage disputes with suppliers?
- Can the vendor support the development and execution of a supply chain partner recruitment process?

The last point is particularly pertinent. Without the support of the supplier base, return on investment thresholds is unlikely to be achieved. The e-invoicing partner must be proactive in conveying the benefits to suppliers (reduced stationery and postage costs for instance), and helping them through the registration process. Another rule is that suppliers should not have to pay to participate – any attempt to get suppliers to subsidise the cost of the service could sour the trading relationship and impact upon take up and usage rates.

Banks are taking an increasingly active role in the e-invoicing market. In 2008, RBS launched its own e-invoicing service in response to rising demand from its corporate clients. Using non-proprietary technology, it can offer turnkey solutions that help customers address all of the key requirements referenced above.

For RBS, e-invoicing presents an opportunity to deepen client relationships. The rich data stream that is captured by e-invoicing can be leveraged to offer advice on aspects of working capital and treasury management.

Major synergies also exist between e-invoicing and supply chain finance. Alternatively known as reverse factoring, this form of finance involves the buyer instigating the financing facility for the seller via its own bank. It effectively allows the seller to benefit from the superior credit rating of the buyer. Management information on the trading history of the parties is key to the process.

Conclusions

The physical and financial supply chains are converging quickly. E-invoicing is providing unprecedented visibility of the purchase-to-pay cycle and offering a range of financial and non-financial benefits to customers. The rich data stream provided by e-invoicing can be leveraged in new financing solutions that directly address the rapidly changing needs of buyers and suppliers. RBS has the experience and product set to help clients adopt these new solutions. ■

Further information

The Royal Bank of Scotland
Website: www.rbs.co.uk