A Special Report from
The Accounts Payable Network

The Global State of e-Invoicing Mandates

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2100 RiverEdge Parkway, Suite 1010 • Atlanta, GA 30328
770-984-1184 • 866-827-6389
www.TheAccountsPayableNetwork.com

Published by Financial Operations Networks LLC, Atlanta, Georgia.

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Introduction

Markets may move by an invisible hand, invoices — not so much.

More than 50 years after the first forecast of a "paperless office," the cogs of commerce still turn predominantly on paper passed hand to visible hand. Left to its own devices, the invisible hand has only managed to eliminate about 25 percent of paper invoices — excluding all but the largest of companies with both the resources to invest in the technology and the leverage to force supply-chain compliance.

In the past decade, more than 27 European governments, led by Denmark, have begun building an inclusive digital ecosystem of open interoperable networks with standard e-invoicing formats and mandating electronic invoicing for government suppliers. Call it the visible pen.

Deutsche Bank, in 2011, projected annual savings of €50-70 million on government processing costs, but backers are hoping that the government mandates, which cover almost 20 percent of the EU GDP, will serve as a catalyst for private-sector adoption, serving a broader goal of global competitiveness through Information and Communications Technology (ICT) leadership.

In Latin America, some governments, most notably Brazil and Mexico, have taken mandates a step farther, establishing electronic invoices as the only acceptable standard for all significant public and private commerce, and requiring that all invoices pass through a government clearinghouse.

In this report, the The Accounts Payable Network (TAPN) examines the current state of e-invoicing mandates and what this trend means for global businesses.

The Global Landscape

At present, there are at least 56 countries that have adopted, or are seriously considering e-invoicing mandates.

The political will for governments requiring government vendors to submit electronic invoices is strong and driven by the triple hammers of efficiency, austerity and revenue capture. The favored global mandate model follows Denmark's pioneering 2005 legislation that allows vendors to submit invoices online, at no charge, with no special software purchase required.

E-invoicing Mandates Around the World

1. Argentina (B2G and B2B - mandated for Argentinian companies and VAT importers)
2. Australia (not mandated but one State Government commenced pilot 2012)
3. Austria (B2G mandated beginning in 2014)
4. Belgium (not mandated but moving toward EU B2G mandate by 2016)
5. Brazil (B2G and B2B mandated in 2010)
6. Bulgaria (not mandated but moving toward EU B2G mandate by 2016)
7. Canada (not mandated)
8. Chile (not mandated but Chile is an E-invoicing "leader." E-invoicing is the norm)
9. China (e-invoicing not yet permitted)
10. Cyprus (not mandated but moving toward EU B2G mandate by 2016)
11. Czech Republic (not mandated but moving toward EU B2G mandate by 2016)
12. Denmark (mandated from 2005)
13. Estonia (not mandated but moving toward EU B2G mandate by 2016)
14. Finland (mandated from 2010)
15. France (mandated some aspects only)
16. Germany (not mandated but moving toward EU B2G mandate by 2016)
17. Great Britain (not mandated but moving toward EU B2G mandate by 2016)
18. Greece (mandated from 2012)
19. Guatemala (mandated for some organizations - by the end of 2012)
20. Hong Kong (not mandated but e-invoicing already accounts for a large percentage of B2G transactions)
21. Hungary (not mandated but moving toward EU B2G mandate by 2016)
22. Iceland (not mandated but e-invoicing already accounts for a large percentage of B2G transactions)
23. India (not mandated but "e-invoicing to public sector" initiative)
24. Indonesia (not mandated but preferred)
25. Ireland (not mandated but moving toward EU B2G mandate by 2016)
26. Italy (mandated from 2008)
27. Japan (not permitted without special approval)
28. Kazakhstan (Mandated from 2012)

(Continued)

E-invoicing Mandates (Cont'd.)

29. Latvia (not mandated but moving toward EU B2G mandate by 2016)
30. Lithuania (not mandated but moving toward EU B2G mandate by 2016)
31. Luxembourg (not mandated but moving toward EU B2G mandate by 2016)
32. Macedonia (not mandated but moving toward EU B2G mandate by 2016)
33. Malaysia (accepted but not mandated)
34. Malta (not mandated but moving toward EU B2G mandate by 2016)
35. Mexico (mandated B2G and B2B 2011, expanded effective 2014)
36. Nepal (mandated 2011)
37. Netherlands (not mandated but strongly encouraged via standards and "pressure" — "10% of B2G invoices by 2010" although this target was missed; "20% by the end of 2011" target was achieved)
38. New Zealand (accepted but not mandated)
39. Norway (mandated from 2013)
40. Poland (not mandated but moving toward EU B2G mandate by 2016)
41. Portugal (not mandated but moving toward EU B2G mandate by 2016)
42. Romania (not mandated but moving toward EU B2G mandate by 2016)
43. Russia (not mandated but e-invoicing made legal January 2012)
44. Scotland (not mandated but moving toward EU B2G mandate by 2016)
45. Singapore (mandated from 2008)
46. Slovakia (not mandated but moving toward EU B2G mandate by 2016)
47. Slovenia (not mandated but moving toward EU B2G mandate by 2016)
48. South Korea (not mandated but e-invoicing already accounts for a large percentage of B2G transactions)
49. Spain (mandated from 2007 and a central entry point established in 2011)
50. Sweden (not mandated but already the norm)
51. Switzerland (mandated some aspects only)
52. Taiwan (not mandated but e-invoicing already accounts for a large percentage of B2G transactions and Government strongly encourages e-invoicing with various incentives)
53. United States of America (mandated in 2013 [Federal Government])
54. Thailand (not mandated but "allowed" with two eSignatures)
55. Vietnam (not mandated but large businesses chosen to take part in pilot project by taxation authority in 2012 and "encouraged" to switch to e-invoicing)
56. Wales (not mandated but moving toward EU B2G mandate by 2016) (3 local councils mandated from December 2011)

Source: Basware; updated by Brad Kuhn & Associates

The European Union, under pressure from progressive member countries, is moving swiftly to implement infrastructure to make e-invoicing the norm by 2020, and mandatory for government procurement by 2016. Prevailing opinion is that a unified market requires a uniform standard with interoperable systems — similar to an ATM network — to facilitate borderless commerce.

In the United States, the Federal Government has mandated e-invoicing, citing a projected 50 percent reduction in processing costs, an annual savings of $450 million.

In Latin America, a strong underground economy has given rise to some of the world's most aggressive mandates requiring government authorization of all significant commercial transactions.

Best Practices

1. Free – Denmark's pioneering mandate experiment in 2005 was based on an assumption that has held true for every subsequent e-invoicing mandate: If you want suppliers to send you their invoices electronically, you should not discourage the practice by charging a fee for the privilege.
2. Open – The Danish government quickly learned that transaction fees were only one pain point for suppliers, who made it clear they resented having to pay for special software out of what they were rightfully owed by the government.
3. Online – The solution has to reside somewhere. Software-as-a-Service allows easy online access for suppliers, and an efficient, centralized system for the government to maintain with minimal IT burden.

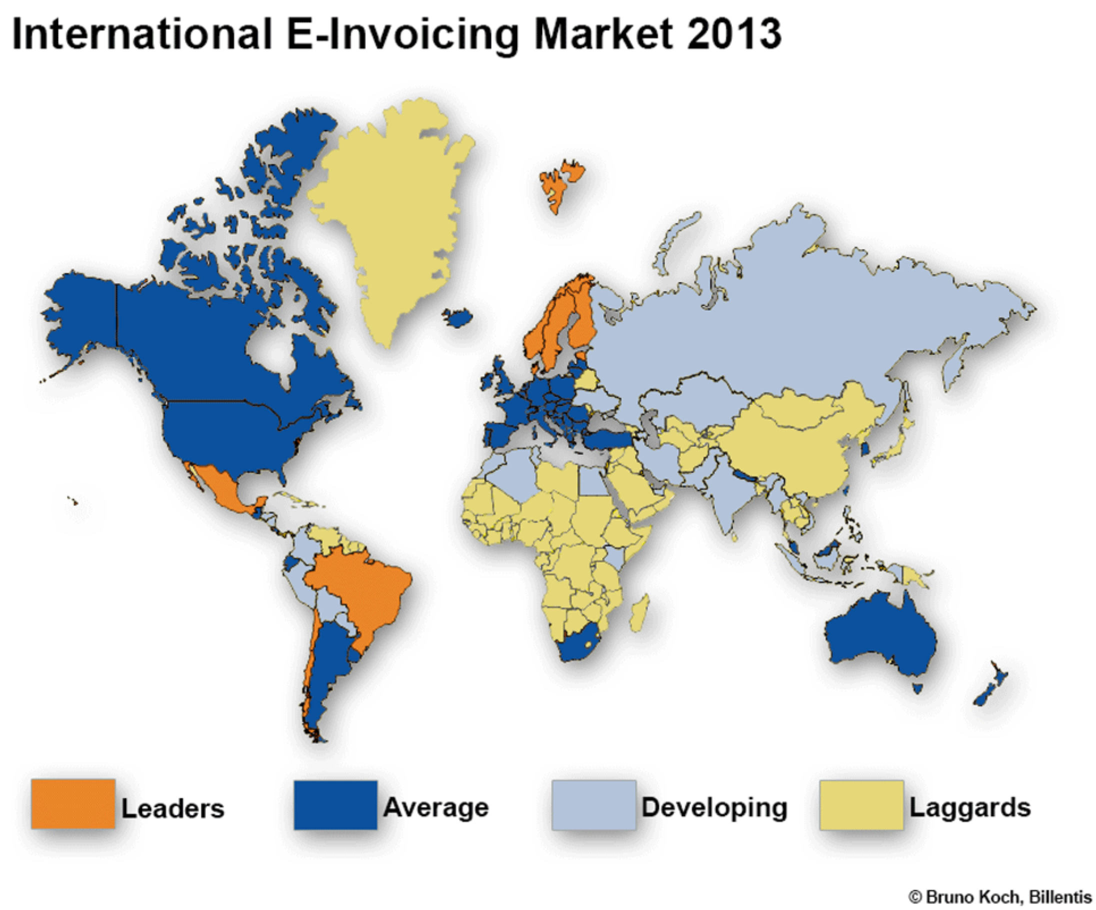
These best practices, which evolved out of Denmark's mandate, are intended to foster voluntary commercial adoption of electronic invoicing for B2B transactions. B2B compliance is a moot point in Latin American countries such as Brazil and Mexico, which mandate electronic invoicing for both public and private commerce.

Mandate Drivers

Efficiency – Multiple non-interoperable standards create complexity, legal uncertainty and additional operating costs for vendors. Members of the European Union are working together as part of the region's Digital Agenda to create an efficient Pan-European system in support of their One-Europe economy.

Austerity – A pending mandate on government procurement in the European Union, likely by 2016, is expected to save €2.3 billion annually, by reducing the cost of invoice processing to €1, from the current all-in cost of €30 to €50. In the United States, a similar plan, effective in 2014, is expected to save taxpayers $450 million.

Accountability – Several countries, most notably led by Brazil and Mexico, have adopted mandatory e-invoicing for all commercial transactions in an effort to recapture tax revenue lost to the region's robust underground economy.



Challenges

Standardization — Universal Business Language (UBL), is the XML message format most commonly used for invoices, but this ground seems to be turned afresh with every government mandate discussion. A multiplicity of e-invoicing formats and protocols merely shifts costs from buyers to suppliers, who are forced to absorb the cost of adding parallel processes to accommodate each important customer's automated billing requirement. (See vendor burden below.)

Infrastructure — Governments making the leap to electronic invoicing will need to upgrade their ERP systems to receive and archive electronic invoices. They will need new invoice workflow solutions and will need to build or affiliate with an e-invoicing network — a public or private group of buyers and suppliers that have established standards of electronic trade, and buy from or sell to each other electronically. As with ATM and telecom networks, interoperability is critical.

Upstream processes — An electronic invoice, out of context, is no more efficient than a paper invoice. The value of mandatory e-invoicing lies upstream in the purchase-to-pay cycle, where data can be verified and passed along through the approval process according to established rules and approval workflows with little or no manual intervention.

Vendor Burden — The primary benefits of mandatory e-invoicing accrue to the government agency issuing the mandate. Suppliers are forced to change their billing practices to comply. At the very least, there will be a training burden. And, absent a digital order-to-cash workflow, e-invoices would still have to be printed and assimilated into the manual receivables process. This lack of context, on the vendor side, is one of the primary hurdles to adoption. Add to that, the prospect of multiple large customers mandating e-invoices on closed, propriety networks, some charging a fee for the privilege, or requiring special software, and you have merely shifted costs from the buyer to the supplier.

Enforcement — For a mandate to work, it has to be enforced. The last 50 years have shown that paper invoices can be persistent. That said, the most effective mandate is going to be one that minimizes vendor burden and leverages the power of the digital billing process to add value — such as trade financing, accelerated cash flow, and business referral opportunities.

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Opportunities

Spillover effect — At approximately 20 percent of world GDP, government purchases are big, but they are just the tip of the iceberg. The European Commission has made it clear that it sees mandatory B2G e-invoicing, long-term, as a catalyst for B2B conversion. Working on the assumption of "if you build it, they will come," the minds behind the Pan-European Public Procurement Online (PEPPOL), Europe's largest borderless eProcurement pilot, see B2B e-invoicing as a natural next step, once the pool of networked vendors reaches critical mass.

Savings for business — The potential benefits are huge — ranging from 50 to 70 percent on processing costs alone. Coca Cola Andina reduced its inbound receiving costs by 70 percent, thanks to automation and the increased accountability built into its efforts to comply with Brazil's strict e-invoicing mandate, which requires end-to-end electronic processing for both buyers and sellers, through a government clearinghouse.

Networking opportunities — One of the ways government mandates are expected to drive private-sector e-invoicing adoption is through the creation and interconnection of searchable, vetted supplier networks. The value of these networks is already evident in recent private-sector transactions, such as SAP's purchase of Ariba, based largely on the perceived value of Ariba's massive supplier network.

Trade financing for SMEs — The financial transparency created by electronic invoicing and payments is already giving rise to new forms of supply-chain finance. Real-time transactional data provided by e-invoicing has made it possible for both traditional and alternative lenders to automate trade financing. This has both increased the amount of trade credit available, and lowered the cost of borrowing.

Conclusion

Government e-invoicing mandates driven by efficiency, austerity and tax revenue recapture are becoming the global norm. But experts say B2G mandates are just the tip of the iceberg and that the real savings, for 80 percent of the world economy, will come through the eventual end-to-end automation of the purchase-to-pay and order-to-cash cycles. More than just automation, electronic invoicing is creating a virtual global marketplace full of new business referral and trade-credit opportunities.

With approximately 75 percent of the world's commercial invoices still transacted on paper, and processing cost reductions from procure-to-pay and order-to-cash process automation estimated at 50 to 70 percent, the potential for savings is huge.

Tradeshift Founder and CEO Christian Lanng, an e-invoicing pioneer who helped launch Denmark's government e-invoicing mandate in 2005, says e-invoicing is at a tipping point, and government mandates are going to be the catalyst for the new wave.

"In Denmark, it was not just about establishing standards," he said. "It was about lowering barriers to supplier adoption. If you lower the barriers enough, you get a much higher adoption rate, and that's when you start to see the real savings."

About The Accounts Payable Network

The Accounts Payable Network (TAPN) is the complete resource for accounts payable, helping more than 150,000 accounting and finance executives at organizations worldwide meet their commitments to accounts payable business-process performance.

TAPN provides — in one easy-to-access, cost-effective, online location — insights, analysis, guidance, advice and best practices for AP strategies, technologies, controls, compliance, people and processes. Members have unrestricted access to critical information guaranteed to help them make smart accounts payable business decisions.

Focus areas include all AP functions, AP metrics and benchmarking; tax and regulatory compliance; proven solutions to real-world problems; AP automation; case studies; member Q&A networking forums and more than 250 downloadable, customizable AP policies, flowcharts, templates and internal-control checklists.

TAPN's highly popular AP tools help compare technologies and AP solution providers, find new ways to streamline operations and enhance controls, and take advantage of extensive educational opportunities. Additional networking opportunities allow members to share problems and solutions with peers "in the trenches" through the public and private forums and discussion groups.

The Accounts Payable Network is completely independent and is not owned by or affiliated with any industry supplier. For further information, please contact The Accounts Payable Network, 2100 RiverEdge Parkway, Suite 1010, Atlanta, GA 30328, 770-984-1184, www.TheAccountsPayableNetwork.com.

About Tradeshift

Tradeshift is platform for all your business interactions. It helps companies run more efficiently by harnessing the power of their network to create new value from old processes like invoicing, workflow, payments and more.

Tradeshift is currently used by over hundreds of thousands of businesses across the globe including the NHS, DHL, and Kuehne+Nagel.