



E-invoicing: Ready for Prime Time

How a managed service provides a cost-effective and efficient transition to electronic invoicing

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Despite today's digital age, of the 30 billion invoices sent and received in Europe every year, more than 90% are in paper format. This is not only labour intensive and error prone, but comes at both a financial and environmental cost. Such manual operations slow invoice reconciliation, leading to poor relationships with suppliers and buyers and, potentially, poor cash flow management.

Electronic invoicing enables businesses to remove manual processes, speed up invoicing cycles and eliminate non-value add activities – reducing costs by up to 70% and improving green credentials. However, adoption has been held back by a complex, fragmented market and confusion about interoperability and legal standards. As not all businesses can afford to move to e-invoicing at the same pace, deployment can become a long drawn out process.

These challenges can be overcome by outsourcing the total invoice management process to a managed service provider. Paper and digital invoices are received and converted into electronic format, whilst invoices are sent in the customer's preferred format. This enables a business to immediately benefit from e-invoicing whilst providing a gradual transition to electronic invoicing for its buyers and suppliers.

This paper discusses the challenges posed by inefficient manual invoice processes, the need for e-invoicing and how an organisation can focus on its core business by handing over invoice processing to a managed service provider.

Louella Fernandes
Quocirca Ltd
Tel : +44 7786 331924
Email: Louella.Fernandes@Quocirca.com

Clive Longbottom
Quocirca Ltd
Tel : +44 118 948 3360 ext 200
Email: Clive.Longbottom@Quocirca.com

E-invoicing: ending the paper chase

It is hard to believe that, in the 21st century digital age, one of the most business-critical documents, the invoice, is still created and sent in paper format. In 2010, of the staggering 30 billion invoices sent in Europe, only 10% were electronic invoices.

The reliance on manual processing of paper invoices is one of the greatest challenges for accounts payable (AP) and accounts receivable (AR) departments, being expensive, time-consuming and prone to error. In a global economy where many other business processes are being automated, inefficient financial processes can put a company at a significant competitive disadvantage.

Consequently, more businesses are investigating how e-invoicing can play a critical part in the goal of optimising their back-offices, streamlining operations and reducing costs. Businesses of all sizes benefit from e-invoicing in a number of ways. The most obvious are the direct cost savings for sending the invoice (paper, postage and printing) and in processing (accepting the invoice, processing and approving it) for the recipient. According to Quocirca, e-invoicing can enhance business efficiency through reducing the costs of handling invoices by up to 70%.

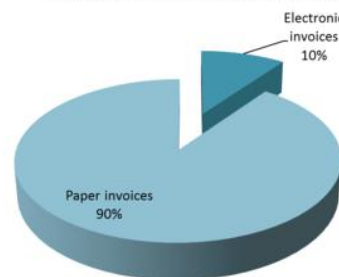
So why, despite the proven benefits of electronic invoicing, are adoption rates so low? Perhaps the most prevalent factor in hindering the move to e-invoicing is the highly fragmented market, compounded by the diversity of suppliers that a business will deal with, that invoice in different ways. E-invoicing has also been held back by a lack of commonly agreed standards and a complex array of global legislation.

Fortunately, the market being revitalised by a combination of legal and business drivers and, in 2011, approximately 5 million European businesses are expected to send or receive electronic invoices. As not all buyers and suppliers will want to move to e-invoicing at the same pace, some leading businesses have turned to managed service providers to take control of their total invoice management. This white paper will explore how the e-invoicing market has evolved, recent milestones which aim to accelerate e-invoice adoption and the benefits of outsourcing invoice management to a third party managed service provider.

The problem with manual invoicing

Reliance on paper invoicing slows organisational processes as manual data entry inevitably involves errors, lost invoices and processing delays. Keying in information from paper invoices is still the most time-consuming and costly activity, yet it is probably the least value-added task in accounting departments. It also usually forces paper and electronic invoices to be handled separately, requiring separate processes and associated inefficiencies. Quocirca estimates that, on average, paper invoices cost €8 per invoice to raise and €10 to receive, while electronic invoices cost €2 to generate. Figure 1 shows a typical manual invoicing process.

The invoice paper mountain
B2B and B2C European invoice volume



Source: Billentis, 2011

Paper invoice processing

- Manual and error prone
- Reduced staff productivity
- Mislaidd and lost invoices
- Unnecessary duplicates
- Poor approval control
- Missed supplier discounts
- Missed payment dates



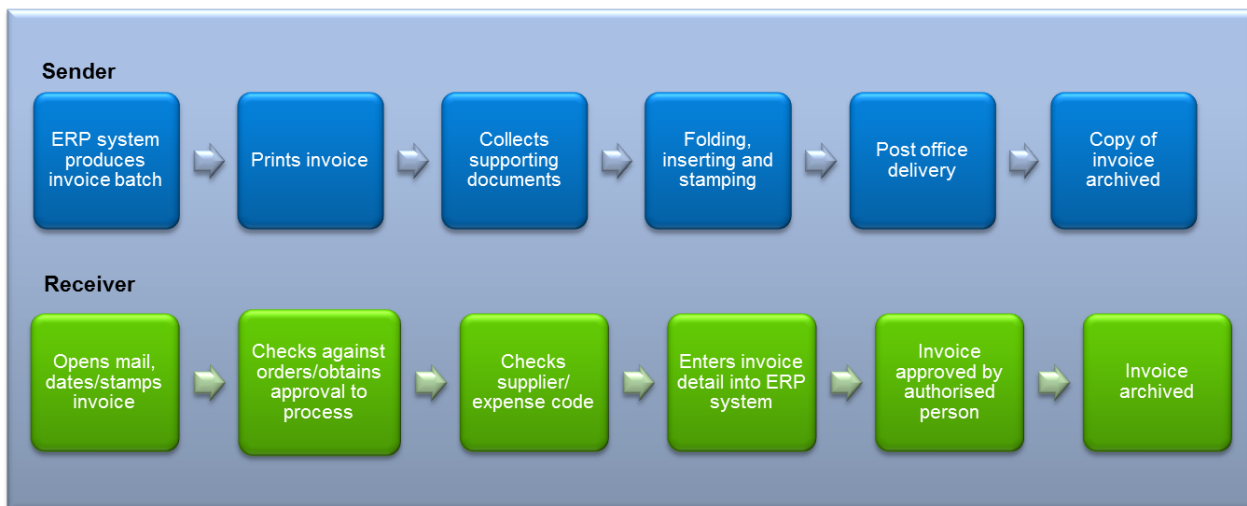


Figure 1. Manual invoice processing

Paper invoices are not only expensive and time-consuming to send manually, they are also cumbersome to archive and store. Reconciling invoicing disputes can also place a heavy burden on company resources. This can lead to poor supplier relationships, which can make it difficult to secure regular discounts. Companies may have difficulty preparing audit trails for closing books and meeting the requirements for European VAT audits, and a high reliance on paper also comes at an environmental cost – not only in paper waste but also in the associated energy costs of transporting the physical invoices.

As businesses look to optimise their financial supply chains and minimise manual operations, there is growing interest in electronic invoicing, which provides both buyers and suppliers with operational and strategic benefits.

Evolution of e-invoicing

A brief history

E-invoicing is nothing new. In the mid-1960s, the big car and aviation manufacturers recognised that the speed of processing business information was critical to remaining competitive. The early solutions for transferring invoice information were called EDI (Electronic Data Interchange) and were suited for very large companies with tight relationships to their suppliers. To a large extent, such EDI approaches have remained an exclusive option for very large companies due to the very high costs for setting up the business communication between the supplier and the buyer. A newer and more modern technology for sending standardised text files is based around the use of XML (Extensible Markup Language).

As XML is still a relatively young technology, there is still a lack of major accepted standards. The most widely used method for sending invoices electronically today is as a PDF attachment to an email, although use of e-invoices in this format does not eliminate manual processes.

What is e-invoicing?

E-invoicing is the sending and receiving of invoices electronically.

Accounts Receivables e-invoicing is the direct transmission of invoices electronically *from* a customer's ERP or accounts system.

Accounts Payables e-invoicing is the direct transmission of all supplier invoice data *to* a customer's ERP or accounts system.



Legal regulations

The EC Directive on Invoicing (2001/115/EC) was introduced in 2004 with an aim to simplify and harmonise VAT invoicing requirements across Europe to make it easier for businesses to conduct cross-border trade. Since then, all e-invoices have been accepted as legal VAT documents by all EU Member States, provided that they meet with specified security requirements. Although all member states have followed the fundamentals of the original Directive there are a large number of variations, which has so far created a very complex environment for businesses to exchange e-documents. More recently, the European Commission stated that it will revise the E-Signatures Directive in 2011 in a bid to encourage businesses to make more use of electronic invoices. The Directive will be changed to make it easier for electronic signatures from different EU member states to be read, recognised and accepted. Electronic invoicing is also part of the European Commission's flagship "A Digital Agenda for Europe" which wants to see e-invoicing to be the predominant form of invoicing by 2020.

E-invoicing choices today

Today the market is categorised by a mix of on-premise and hosted solutions, most of which offer integration to Enterprise Resource Planning (ERP) systems, compliance with varying country regulations and supplier on-boarding. There are four main e-invoicing models that businesses may adopt:

- **Buyer direct:** The buyer accepts paper and electronic invoices from suppliers, but takes responsibility for converting paper to electronic format. This approach is often favoured by larger organisations, but still requires manual processes such as document scanning for paper to digital conversion and data extraction prior to uploading to AP systems.
- **Supplier direct:** The supplier is responsible for creating a digital invoice directly from its AR system or via a web based form, eliminating the buyer's need for manual data entry. Whilst this approach is popular in the B2C market, adoption in the B2B market has been limited by the challenges of integrating buyers' AP systems with suppliers' AR systems.
- **Consolidator:** Invoices, regardless of data standards, are interchanged via a third party such as a service provider or an invoice portal. Both senders and receivers of invoices are connected to a network for the dispatch and receipt of invoices. Once enrolled in a network, which may charge an upfront fee as well as an on-going fee, a supplier can send electronic invoices to any customer on the network. E-invoicing networks require full buyer and supplier participation and generally appeal to large corporations. Some suppliers may have little incentive to participate in e-invoicing networks as they may not be able to justify the fee. However, in a competitive environment, they can feel under pressure to comply in order to retain the business. Additionally, where buyers and suppliers have joined different networks there can also be issues with interoperability. Examples of e-invoicing networks include Ariba, Basware, GXS and OB10.
- **Total invoice management as a managed service:** A managed service provider (MSP) can take full control of the invoice process – including the manual capture of paper invoices and document scanning, the handling of a diverse range of invoice receipt formats (e.g. xml, CSV, EDI, fax or paper) and the sending of invoices in a buyer's preferred format. Software is developed, maintained and operated by the MSP, with customers paying a "fee per transaction", enabling lower costs.

The benefits of a managed service

A managed service that can handle invoice data across multiple countries, legal boundaries and any format can provide businesses with a gradual transition to e-invoicing. Services such as mail handling, document scanning, document conversion and storage can deliver cost savings and improved efficiency for a business of any size, and enable them to focus on their core business.

Under a managed service scenario, buyers and suppliers that are reluctant to join an e-invoicing network continue to send paper invoices. Instead of mailing invoices to a buyer's AP department, suppliers send these invoices to a processing centre managed by the e-invoice managed service provider. At these processing centres, the documents are scanned and data is intelligently extracted from the paper invoices and converted into an electronic format.



Data from both the paper and electronic invoices is then available for processing through a single unified platform (Figure 2).

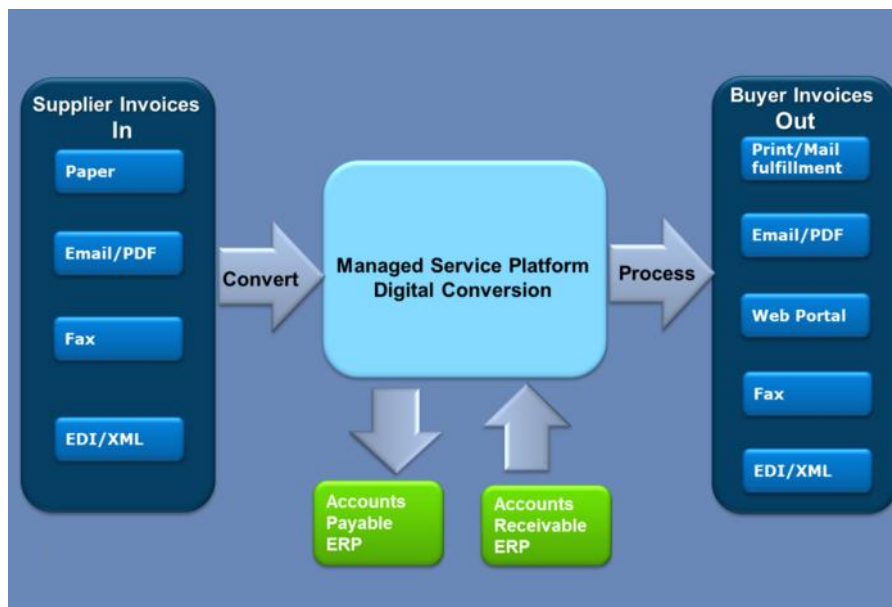


Figure 2: A managed service platform for total invoice management

A managed service can offer a flexible, scalable and phased approach that creates a continuum between legacy media and future e-invoicing mechanisms. This path from manual to automated electronic invoicing follows supplier and buyer adoption rates so that businesses can start gaining efficiencies and reducing costs immediately.

A managed service for e-invoicing offers a range of operational and strategic benefits for an organisation's buyers and suppliers:

Buyer Benefits:

- **Reduced costs:** Automating accounts payable processes can reduce invoice processing costs through the elimination of sorting, registering and manual data entry of invoices. Storage requirements can also be reduced through e-archiving, replacing the physical space required for invoice storage.
- **No CapEx investment:** A managed service uses a pay-as-you-go model, which provides for more predictable operational expenses and can expand and contract as business changes. Using a managed service means that a business can effectively outsource innovation whereby the service provider has to remain active and accountable to drive innovation in the process as new methods and technologies become available.
- **Multichannel delivery:** Organisations receive all their invoices in their preferred format, from day one, without having to wait to on-board a critical mass of suppliers on the e-invoicing network.
- **Reduced manual activities:** Buyer organisations can see a reduction in full time employees and processing costs that were originally associated with document scanning and data entry from paper invoices. This cost saving also translates to faster invoice dispute resolution as a result of electronic invoice processing. Staff productivity is also increased as staff can focus on more strategic activities.
- **Shorter payment cycles:** E-invoicing can reduce invoice processing times, which enables organisations to capture opportunities for more early payment discounts.
- **Improved supplier relations:** Relationships are enhanced by more efficient, more accurate payments to suppliers.



- **Compliance benefits:** E-invoicing enables full auditability and the use of digital signatures, security certificates and e-invoice archiving regulations and can guarantee the integrity and authenticity of transmissions, helping companies meet national and legal invoicing regulations in EU countries.

Supplier Benefits:

- **Reduced costs:** Costs, both financial and environmental, are significantly reduced by eliminating manual invoicing, process and archiving.
- **Limited business disruption:** Requires minimal, if any, changes to the supplier-side process.
- **Spend management:** Suppliers gain real-time visibility into invoice status, whether the invoice is being reviewed, approved or under dispute. The data from e-invoicing can be used by the buying organisation to leverage contracts and rationalise its supplier base.
- **Faster approval cycle:** Electronic invoicing compresses the approval cycle, ensuring that suppliers are paid on time.
- **Gradual migration:** As time progresses, the supplier can decide if and when it makes sense to move to a complete e-invoice approach with the help, where necessary, of the outsourcing company.

Getting started

The benefits of using a managed service for e-invoicing provide a compelling case for consideration, with tangible cost savings for both small and large organisations. E-invoicing no longer means investing in risky and expensive in-house development. Starting the process now is critical in preparing a business for electronic invoicing as it reaches critical mass, as well as capturing efficiency gains from the early stages of the project. Overall, the approach any company takes should reflect its position as the sender or receiver of invoices, the needs of customers/suppliers, and the geographical focus (local/European/global). Some suggested recommendations for getting started include:

- **Executive sponsorship:** Deploying an e-invoicing solution requires project management and commitment at the highest level within both procurement and finance functions. The organisation should have a project sponsor to ensure full buy-in across the organisation.
- **Analyse requirements:** Understand the scope and objectives of migrating to e-invoicing. Analyse the number of invoices being sent and received. Some managed service providers offer assessment services and tools that analyse invoice types (e.g. domestic or global), types of suppliers and buyers (e.g. B2C or B2B), the profile of customers (e.g. a mix of large, medium and small) and predict the new cost per invoice.
- **Review the market:** In an extremely fragmented market it is vital to look for credentials that demonstrate that the service provider has experience in addressing the myriad of technical, legal and commercial challenges of e-invoicing.
- **Ensure integration with AR and AP systems.** An e-invoicing service should integrate seamlessly with an organisation's existing financial or ERP systems.
- **Look for a service that works with organisations of all shapes and sizes:** An e-invoicing service provider should be able to transmit a wide range of e-invoice formats, provide conversion of a paper invoice into an electronic one and also conversion of an e-invoice into paper, delivering an invoice by traditional postal methods.
- **Set realistic expectations:** It is not practical to gain 100% adoption immediately. A business should recognise the abilities of its customers to accept e-invoices. Give customers the opportunity to receive invoices electronically – this may mean a slower adoption rate but will maintain better buyer and supplier relations.
- **Widely communicate to gain-buy in:** Communication and cooperation is the ingredient to success. It is important to ensure that all internal stakeholders take part in the communication process and understand the importance of e-invoicing to the business.



E-invoicing in practice

Accounts Payable

A sportswear manufacturer was spending €4 million per annum distributing paper-based invoices and statements. Ricoh's i-Invoicing solution is helping the customer to make a gradual transition from hard-copy to electronic invoicing, streamlining administration, reducing process costs and improving cash collection.

The Challenge

This company operated an expensive and inefficient invoicing process, mailing 4.5 million paper invoices and statements a year. Invoices were printed on a daily basis whilst other transactional documents, such as statements and order acknowledgements, were printed on a monthly basis. Printed documents were inserted into envelopes and sorted by country ready for mailing, documents were printed in-house using black and white printers and it was necessary to stock pre-printed stationary and envelopes. The company was looking for a robust and financially compliant system to optimise its financial supply chain.

The Solution

The company has outsourced its entire invoice process to Ricoh to transition from paper to electronic invoicing over three years. Transactional data is recorded to the point at which an invoice is delivered in electronic or paper-based format to the customer. Ricoh sends electronic invoices to the majority of customers, saving costs and helping the company move towards a paperless billing process in keeping with the company's green environmental policy.

Transactional data, generated by the company's SAP order management system, is processed by Ricoh and used to create electronic invoices. According to customer preference, invoices are either uploaded to a web portal for online viewing, or printed and dispatched by conventional means. Customers are able to download and pay bills by logging on to the secure web portal. Ricoh ensures that electronic invoices are legally compliant by attaching a secure digital signature which can be authenticated by local tax authorities. Copies of electronic invoices are lodged by Ricoh within a digital archive from where they are easily accessed when required.

Customer Benefits

The customer has made a seamless transition from paper-based invoicing to electronic invoicing, releasing internal resources, reducing costs and improving its green credentials. 80% of customers are ultimately expected to opt for electronic invoicing. They will typically receive and pay their bills two days earlier in the billing cycle, improving cash flow. The number of paper-based transactional documents distributed by Ricoh on the manufacturer's behalf is expected to reduce by 3.6 million per annum, saving the manufacturer €3 million.

Accounts Receivable

A global specialist in energy management, this company helps its clients reduce operational costs by implementing efficient energy management systems. By outsourcing invoice management to Ricoh, the energy management company dramatically improved its own business processes and significantly reduced operational costs.

The Challenge

Represented in 190 countries around the world, this multinational organisation has more than 8,000 suppliers. With the company receiving more than 2,000 invoices a day, it took a team of 12 people to simply complete more than 1 million fields of data every month. Errors in data entry, an unavoidable result of manual processing, led to issues with invoice matching and payment. With the volume of invoices fluctuating on a daily basis, manual processing also caused delays during busy periods.

The Solution

Ricoh provides an outsourced invoice management service (i-Invoicing) and receives the invoices on fax, email or paper. All supplier invoices are scanned upon receipt. Ricoh's image recognition software 'reads' the invoices to identify and record essential information. Ricoh manages licences and upgrades with the customer paying just for the service provided. The supplier's name, invoice number and date, the purchase order number, item costs and the total invoice amount are captured no matter where on the invoice they appear. Ricoh validates the data, manually completing any fields missed during the batch process. An export file containing the validated data is returned to the customer for upload into SAP. The data provided is already formatted in SAP tables and can be uploaded directly into SAP without manual intervention.

Customer Benefits

Ricoh's i-Invoicing service has eliminated errors and streamlined the accounts payable process. Outsourcing has helped enhance business efficiency and reduce operational costs. The company has improved the timeliness and accuracy of the invoice data available to the business and reduced the time wasted on manual data entry. The time saved is the equivalent of releasing 10 full-time employees to core business activities.

Ricoh's service has also reduced delays associated with fluctuating daily volumes. By providing a similar service for several customers, Ricoh is able to manage peaks in demand and provide accurate data on a timely basis, irrespective of the volume of documents processed. The data provided by Ricoh is more accurate than that which had been manually captured by the company's own accounts payable department. With more accurate information available within SAP, there are fewer mismatched invoices. Supplier invoices are now validated more easily and paid in a timely manner with less need for manual intervention.



Conclusion

E-invoicing has long promised cost savings and efficiency gains, and compelling market drivers are now set to broaden adoption, enabling more organisations to begin the transition to electronic invoicing.

As a full e-invoicing approach requires buy-in along the whole supply chain, a big-bang approach to e-invoicing is not realistic. A managed service is a cost-effective and resourceful way of managing the process of migration to e-invoicing. The ability of a managed service provider to integrate multiple channels and formats of transaction data means that a business can gradually migrate partners to full e-invoicing at their own pace, whilst benefiting from faster business processes, reduced labour-intensive tasks and improved buyer and supplier relationships.

By not restricting the format of invoices, a managed service ensures that the benefits of e-invoicing are not limited to just large enterprises, but also extended to SMEs who will gain access to a wider market of potential customers and suppliers, especially larger organisations who may prefer working with e-capable trading partners. E-invoicing will be a major factor in generating business process efficiency for many businesses in the future. Starting now will ensure businesses of all sizes are ready as the e-invoicing market steadily builds towards critical mass.

References:

- Billentis: E-invoicing/E-billing in Europe and abroad, 2011
- Deutsch Bank Research, 2009

About Ricoh

Ricoh Company, Ltd. (Ricoh Company) is a Fortune Global 500 company specialising in technology and services that transform high volume, document-intensive business processes into more efficient ones. This is achieved through Ricoh's expertise in Managed Document Services, Production Printing, Office Solutions and IT Services. By working with Ricoh, businesses can streamline the way they work, become more efficient and profitable, and share knowledge more effectively within their organisations. With a global workforce of 109,014, Ricoh operates in Europe, the Americas, Asia Pacific, China and Japan.

Ricoh Europe Holdings Plc is a public limited company and the EMEA headquarters of Ricoh Company with operations located in London, United Kingdom and Amstelveen, the Netherlands. In the fiscal year ended 31 March 2011, revenues from Ricoh's EMEA operations totalled ¥413.9 billion (approx US\$4.99 billion). Ricoh Company's worldwide sales totalled ¥1,942 billion (approx US\$23.4 billion) during the year ended 31 March 2011.

About Quocirca

Quocirca is a primary research and analysis company specialising in the business impact of information technology and communications (ITC). With world-wide, native language reach, Quocirca provides in-depth insights into the views of buyers and influencers in large, mid-sized and small organisations. Its analyst team is made up of real-world practitioners with firsthand experience of ITC delivery who continuously research and track the industry and its real usage in the market.

Details of Quocirca's work and the services it offers can be found at <http://www.quocirca.com>

