

An end to the paper chase



THE UK RECESSION HAS SPURRED BUSINESSES INTO SEEKING NEW WAYS TO IMPROVE KEY FINANCIAL RATIOS SUCH AS DAYS SALES OUTSTANDING. **IAN WATKINSON** EXPLAINS HOW ELECTRONIC INVOICING CAN HELP TREASURY DEPARTMENTS DO JUST THAT.



is certainly one of them. You don't want to rely on an invoice if you can't verify its authenticity. We've addressed that by using rigorous and proven security protocols. We use digital signatures, which give the receiver confidence that the sender is who he says he is."

RBS was the first UK-based bank to launch an e-invoicing service for its customers. The service was launched in 2008 in response to rising demand from RBS's corporate clients, and uses the latest technology to offer a secure, reliable and simplified process to resolve any traditional IT-related drawbacks. There are no costs or technology barriers to be overcome by trading partners, and adoption brings significant cost reductions and increased efficiencies to both trade receivables and procurement activities. RBS's e-invoicing service is designed to be easy to deploy across the complete supply chain, from the largest to the smallest participants.

INSTANT MONETARY BENEFITS. A taskforce looking into e-invoicing for the European Commission highlighted that clear and substantial financial benefits could be achieved. Based on the taskforce's findings, Europe could save an estimated €238bn (cumulated over a period of six years)¹ by migrating to an electronic system. While a paper invoice can cost anywhere between €1.13 and €1.65, e-invoicing would reduce the cost per invoice to between €0.28 and €0.47, a reduction of 70–75%².

The European Association of Corporate Treasurers (EACT) reached similar conclusions, estimating that companies could save up to 80% of their current costs by processing invoice data automatically, removing paper and manual efforts. For an organisation such as the London Borough of Hammersmith & Fulham (see case study on page 4), which has to process approximately 140,000 invoices from over 8,500 different suppliers, the financial savings could be significant, not to mention the time costs involved in printing out the invoice, posting it and getting it authorised manually.

EUROPEAN COMMISSION INITIATIVES. The findings of the taskforce led the Commission to conclude that paper invoicing is a significant obstacle for the efficient running of a business.

Electronic invoicing is not a new concept. IT companies have been offering e-invoicing services for years, and the governments of Spain, Italy and Denmark have been making e-invoicing mandatory in the public sector since 2005. In all three countries, all suppliers of goods and services to the public sector must bill by electronic invoice. Notwithstanding these initiatives, only 5% of European companies have gone down this route, according to research by Gartner Group.

There are a number of reasons for this, not least of which is the lack of viable alternatives to the traditional offerings provided by IT companies. Proprietary data standards, high setup costs and the imposition of cumbersome practices on supply chain partners have all acted as barriers to entry.

However, the arrival of new entrants into the market, most notably financial services companies, is accelerating the move away from the traditional paper invoicing process. In the words of John Lyons, head of Global Transaction Services UK at RBS: "There have been barriers to uptake, and security



E-INVOICING IS PROVIDING UNPRECEDENTED VISIBILITY OF THE PURCHASE-TO-PAY CYCLE AND OFFERING A RANGE OF FINANCIAL AND NON-FINANCIAL BENEFITS TO CUSTOMERS.

So much so that as part of its aim to reduce administrative costs for small and medium-sized enterprises (SMEs)³ by 25% by 2012, the Commission has identified e-invoicing as an integral part of its efficiency drive. In addition to the clear financial benefits, it was recognised that e-invoicing can help to streamline business processes and drive innovation.

Most SMEs in Europe are still creating paper invoices, putting them into envelopes with stamps, and sending them through the post or couriering them to their clients. When clients receive the paper invoices, they must check that the information they contain is correct and manually enter the details into their systems before the payment can be approved. This whole process can be fully automated without manual intervention, which is the *raison d'être* of e-invoicing.

The idea of the e-invoicing service is to make electronic operation feasible even for small companies. Large companies have long used Electronic Data Interchange (EDI) systems to communicate orders, invoices and remittance advices, but those facilities have been beyond the reach of smaller firms.

Previous attempts to improve electronic document exchange have worked well between large buyers and suppliers where there are large volumes, but this hasn't really worked as well for smaller organisations, due to changes required to systems and the costs involved.

The RBS service aims to cater for suppliers at all levels. If they have an accounting system of their own, suppliers can download a small piece of software, which intercepts any invoices they try to print for a buyer. That file is then processed electronically, ready to be sent on to the buyer's accounting system. Smaller suppliers without accounting software of their own can simply log on to the system and complete a web-based form with all the details of the invoice. Those details then go direct to the purchaser's accounting system.

E-invoice systems try to reproduce what companies do already with paper: if any system is too prescriptive, suppliers just say that it's too hard to manage.

SUPPLIER FINANCE. One significant benefit conferred by streamlining the entire invoice process is that buyers can, if they wish, either guarantee to pay their invoices on time, or even negotiate a discount for early payment. This may be particularly attractive for the smaller supplier; it saves the

E-invoicing explained

In essence, 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 into accounting systems. In turn, the data can be used for a variety of purposes – for example, the creation of payment instructions.

The benefits of e-invoicing

- It can significantly reduce costs, by eliminating the need for paper and the rekeying of data.
- It enables real-time data delivery, taking advantage of fast payment discounts and improving key financial metrics such as days sales outstanding.
- It reduces risk. Digital signature technology confirms the sender's identity and guarantees that the content has not been altered. E-invoicing also eliminates errors and bottlenecks and realises the benefits of straight-through processing and automatic validation checks.
- It is VAT-compliant. RBS e-invoicing is VAT-compliant in the UK and in those European countries where the service is currently live. The service will maintain compatibility as legislative changes are introduced.
- It can help reduce environmental impacts. There is no more printing, sending and destroying paper, so e-invoicing can help reduce a business's carbon footprint.
- It is inherently secure.
- It generates accurate management information.
- Its reach is global. The service can be made available to your overseas subsidiaries and trading partners.

RBS's e-invoicing value proposition

- We provide free access for suppliers.
- We have existing relationships with customers.
- We guarantee compatibility: any data in/out.
- We offer complementary services such as invoice finance or payment options.
- We are trusted in building large-scale networks.
- We provide proactive trading network adoption.
- There are five flexible connection options.

buyer money and gives the bank handling the invoices an opportunity to provide additional financial services, such as supplier finance.

In this process, for qualified buyers RBS establishes a credit facility that can be used by the bank to make early, discounted payments to selected suppliers (aiding supplier cashflow and permitting the buyer to take advantage of early

cash management

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payment discounts that may be available), collecting the full amount due from the buyer on invoice maturity. Often, the pricing of this form of financing is considerably more competitive to the supplier since it is based on the credit strength of the buyer.

For buyers, simplified settlements to the bank streamline payments to multiple suppliers and enhance their trading relationships. Suppliers benefit from obtaining an additional source of keenly priced financing to assist their cashflows as well as the opportunity to develop further their own credit relationships with RBS, either as existing or new customers.

LOOKING AHEAD. Adoption of e-invoicing is clearly on the rise and, in the process, helping to move the discipline into the mainstream. In a 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. Approximately 15% of respondents were even more bullish, estimating that over 50% of customers will adopt it in this period⁴.

"Companies can remove paper from the invoicing process, they can validate and process invoices quicker and they can make better decisions about when to pay suppliers or bill their customers," says Lyons. "E-invoicing is simply cheaper, faster and better."

The physical and financial supply chains are converging at

an ever faster rate. 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 which directly address the rapidly changing needs of buyers and suppliers.

Footnotes

¹ European Electronic Invoicing Report July 2007, from the European Commission Informal Task Force on e-invoicing

² Aberdeen Group, "Electronic Invoicing Solution Select Report: Leading an Accounts Payable Extreme Make Over," December 2005

³ According to article 2 of the Annex of Recommendation 2003/361/EC, the category of micro, small and medium-sized enterprises (SMEs) is made up of "enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding €50m, and/or an annual balance sheet total not exceeding €43m"

⁴ Fundtech figures from GTNews article published July 2008

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Case study: Hammersmith & Fulham Council

With 140,000 invoices to process from over 8,500 different suppliers, the London Borough of Hammersmith & Fulham had been considering ways to simplify its payment methods for some time.

"We'd looked at a system based on scanning in paper invoices, and an electronic method that required suppliers to pay for the service, but when we saw what RBS had to offer we felt that it was well ahead of anything else on the market," says Mark Cottis, the council's e-procurement consultant.

RBS's web-based, paper-free service enables the council and its suppliers to exchange information instantly and securely without changing its existing technology. The system also helps to reduce the council's costs. "Our suppliers are very diverse – from sole traders to large businesses – so we needed a one-size-fits-all solution that also had the flexibility to match their needs," says Cottis.

After an introductory letter from the council's payments team, RBS took responsibility for transitioning the suppliers from paper to electronic invoicing.

Colin Lowen, RBS's client relationship manager for the council, says: "There was a little bit of reluctance initially, but they came on board once they could see the benefits: free automated invoicing that saves them time and can result in them getting paid quicker."

The biggest benefits of RBS's web-based system are being felt inside the council's finance directorate, with an increasing number of suppliers now moving from paper to e-invoicing, and by doing so improving efficiency and reducing errors.

"With invoices automatically matched to purchase orders, there is less chance of quantities or rates being miskeyed, making the whole process more secure and reliable," says Cathy Oatway, the council's payments services manager. "And less paper means lower postal and transport costs, saving time and money as well as reducing our carbon footprint."

Although RBS e-invoicing is a new product, and the council has a variety of payment systems that include non-PO-related orders, the implementation process was smooth, and has been tailored by the RBS team to suit the client.

"We started with the big, more standard suppliers like our stationery provider, and as time moves on we will gradually bring the rest onto the e-invoicing system, with a target of realising six-figure annual savings," says Cottis. "With councils seeking to maintain frontline services while also keeping council tax bills down, efficiencies from programmes such as RBS e-invoicing are becoming more and more important."