

ROADMAP TO ELECTRONIC INVOICING

FROM 1 JANUARY 2004, ELECTRONIC INVOICING WILL BE RECOGNISED IN THE EUROPEAN UNION. **SAW HOOI HIM AND JOHN SALTER** OF DEUTSCHE BANK LOOK AT THE INNOVATIVE OPPORTUNITIES THIS CREATES FOR COMPANIES.

Electronic invoicing will soon be a reality in Europe: The Council Directive 2001/115/EC, introduced by the European Commission (EC), will deliver a single, simplified set of rules on invoicing valid across the European Union (EU). It replaces 15 individual sets of legislation and creates the legal framework for cross-border electronic transmission and storage of invoices. The 15 EU Member States are required to implement this directive into their legal framework by 1 January 2004.

The intent is to overhaul the EU's archaic invoicing and VAT rules, or as commented by Frits Bolkestein, the EU's Taxation Commissioner: "Put in place a system geared for the 21st Century." It also recognises the development of electronic commerce and the existence of new technologies in the market that "would enable firms to fully benefit from the opportunities – to cut their administrative costs appreciably and thus increase their competitiveness," adds Bolkestein.¹

HEADING TOWARDS E-INVOICING BY THE EU. The new directive will encourage businesses to take a closer look at electronic invoicing and electronic storage, as it establishes:

- the recognition by member state tax authorities of electronic invoices without the need for a notification or authorisation system, on condition that the authenticity of origin and integrity of the data can be guaranteed by electronic signatures or electronic data interchange (EDI);
- the possibility of outsourcing invoicing operations to a third party or the customer (as in self-billing) under certain circumstances; and
- free choice with respect to the place and method of storage of invoices, and acceptance of electronic storage, including the storage in another member state other than where the organisation conducts its business.

Furthermore, the directive identifies a list of 10 mandatory general items that need to be included on every VAT invoice, plus four additional items that may be required in specific circumstances, and that the member states shall not require invoices to be signed.

WHAT DOES THIS MEAN FOR COMPANIES? These developments in the European legal framework and technology will provide companies with a wider choice on how they can address their invoicing and payment processes. Today, such innovative technology already exists in the form of electronic bill presentment and payment (EBPP). This leverages the internet to enable companies to deliver or receive electronic invoices between their trading partners

for online processing and payment, including the ability to manage disputes.

Faced with the current economic environment, firms must strive to become more efficient to remain competitive. The unique thing about EBPP is that it can deliver benefits to both the organisation and its trading partners. These include:

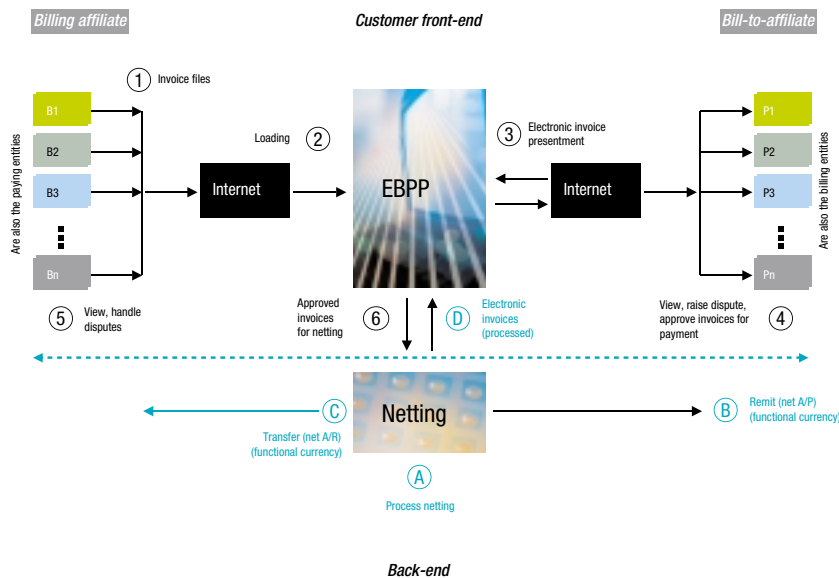
- opportunities to improve efficiency and reduce costs through streamlined invoice and payment processing;
- better management controls over operational processes;
- improved automation by integration into financial systems;
- availability of more timely and accurate information, resulting in improved cashflow management on payables and receivables;
- enhanced trading partner relationships through greater transparency, improved communication, and increasingly higher levels of collaboration and trust; and
- improved supply chain management in the financial area, as EBPP delivers solutions for invoice and financial processing, as well as the reconciliation and reporting on these processes.

GETTING STARTED. The introduction of any technology initiative presents its own set of challenges. For EBPP, the key challenge is in the collaborative nature of this service, where the adoption of this technology requires external user acceptance – that is, the willingness of a company's trading partners to participate. Organisations often face the dilemma of whether they should initiate the service or wait until their trading partners request it. If they wait, will they lose the competitive edge, or if they invest, will they risk investing in a technology that may fall outside their payback period? This is where banks need to be in a strong position to help clients understand how they can position EBPP within their organisations and to work closely with customers to deliver a 'win-win' proposition for implementing the service. Having provided a global EBPP service – db-eBills – to customers since 2000, Deutsche Bank has successfully implemented the solution in the telecoms, air cargo, consumer goods, petroleum, transportation and construction materials industries across the world.

It is of prime importance for a company to understand its objectives and value propositions for implementing EBPP. The key driver in adopting EBPP is the benefit that can be derived from re-engineering existing invoicing and payment processes and, importantly, the value proposition to a firm's trading partners.

AN INTERNAL EBPP DEPLOYMENT APPROACH. One approach that firms can consider, and from which they can capitalise on the

■ EBPP ONLINE PROCESS



'BY USING AND EXPERIENCING EBPP IN-HOUSE, THE FIRM CAN APPRECIATE WHAT IS INVOLVED IN THE IMPLEMENTATION, DEPLOYMENT AND DAY-TO-DAY USE OF THE SYSTEM'

rapid changes taking place in Europe on electronic invoicing, is the adoption of this technology in-house. As a result of inter-company trading, companies invoice each other and it will be feasible to replace the existing paper-intensive processes with EBPP.

Also related to inter-company trading is the use of EBPP to complement netting. Organisations make use of netting to reduce costs associated with inter-company payment flows. However, the invoice flow is predominately paper-based. Furthermore, most netting solutions do not capture the complete invoice information, nor do they provide dispute resolution mechanisms. In the instance that the netting system does incorporate dispute resolution, it is invariably handled at an elementary level.

In Europe, some innovative banks are already in active dialogue with clients to pilot solutions integrating EBPP with their netting products. This type of service offers clients the benefit of using EBPP as a front-end, to present and process inter-company invoices electronically, including, for example, online dispute resolution and payment decisions. Invoices that are accepted for payment are then electronically delivered to a netting application to be netted.

By using and experiencing EBPP in-house, the firm can appreciate what is involved in the implementation, deployment and day-to-day use of the system. This knowledge is invaluable when it comes to collaborating with external trading partners to adopt EBPP more widely. What better approach to convince external parties to utilise this technology than to deploy it internally and provide internally compiled empirical evidence as proof of its value?

EBPP: AN EMERGING INDUSTRY. Significant interest has been generated in the area of EBPP over the past five years. In the current economic downturn, any prudent group treasurer or finance director would at least give consideration to the

opportunities that implementing such a technology might present.

At present in Europe, EBPP remains an 'emerging industry'. Mass-market usage is still to come and for the average multi-national company the business case for such an investment is hard to justify over the short term. However, the in-house deployment of EBPP is one of several approaches that can be embraced by companies to prepare themselves for further developments in the market. The Council Directive 2001/115/EC sets consistent legislation across the EU countries, which will help to foster an environment to encourage businesses to deploy EBPP technology. The expectation is that if companies move in this direction then, through hands-on usage, they will be in a better position to develop a business case to evaluate its capabilities more adequately.

The key in the whole exercise is the first-hand experience gained on EBPP that will provide the company with the knowledge to re-engineer itself on invoicing and payment, aimed at introducing efficiencies and lowering the cost of doing business with trading partners. It is the move towards an external focus that helps an organisation to concentrate on value creation, with an emphasis on collaboration and trust, and take a view to a long-term commitment with trading partners, which spells success.

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Note

¹Source: European Commission Press Release IP/00/1325