

E-Invoicing Entering a New Era

Exchange



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E-Invoicing News 2014-6

December 2014

1. “Zero time” – trigger for a digital revolution?

Zero growth. Zero inflation. Zero interest rate. In many countries, the economy seems to freeze. But simultaneously we can see signs of a powerful digital revolution. The American economist Erik Brynjolfsson and Andrew McAfee caused a furor in the media press already. In their new book “The Second Machine Age” they come to a clear conclusion: Companies will be forced to transform or die. The two authors describe how the digital revolution will change all of our lives forever in the form of a second machine age.

First market impact of “Zero time”



Zero growth resulting in cost pressure and tax evasion

- Governments become more active with B2G obligations
- Tax administrations push e-invoicing for improving the controls and to combat the tax evasion

Zero interest rate resulting in investment challenges

- Investors knocking at the door with the aim to invest in the few remaining growth industries like e-invoicing
- Finance institutions with increasing interest to get more than 0% for lending money → Supply Chain Finance, Dynamic Discounting

Market interest strongly increased: +65% orders for my market report in a year on year comparison.

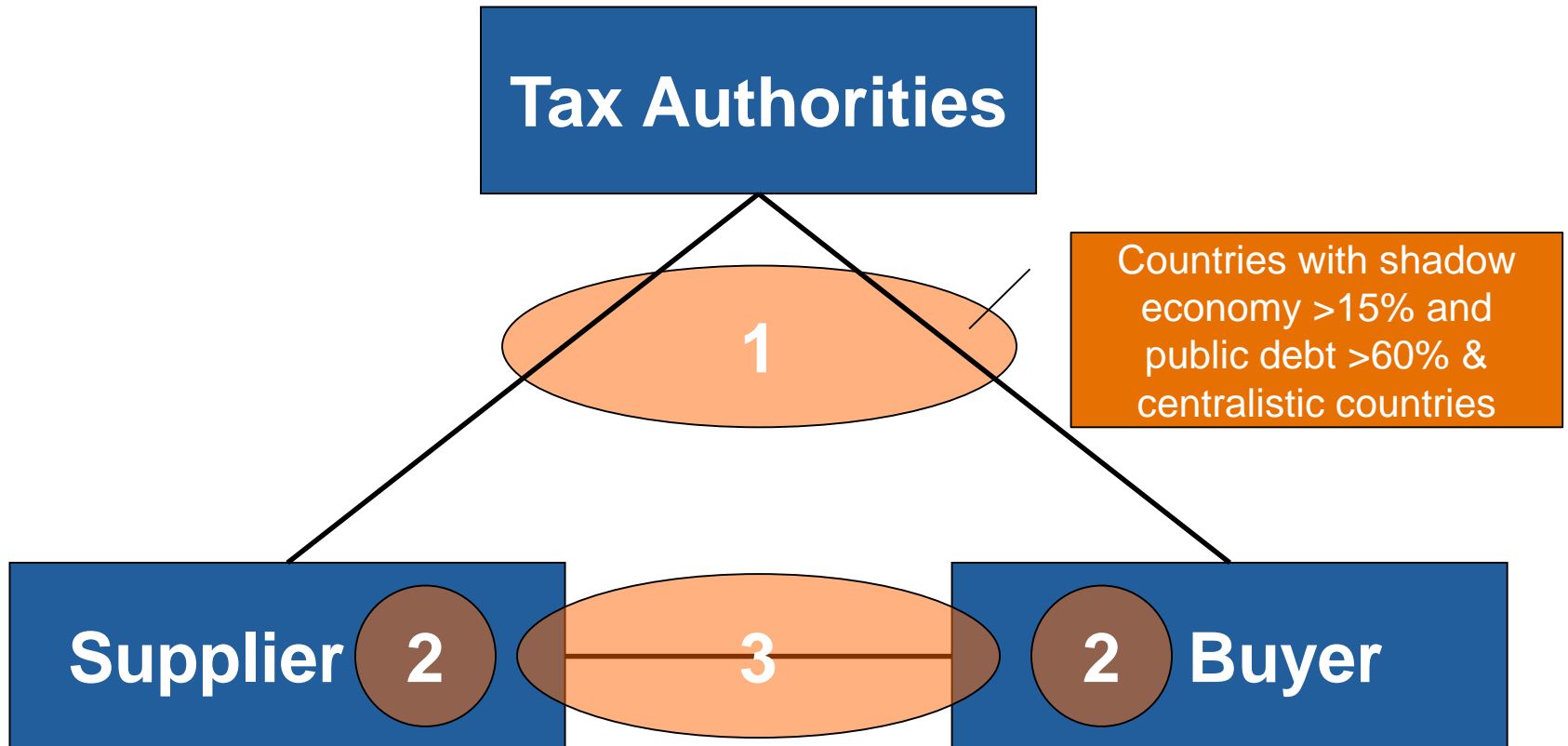
Development of E-Invoicing Market Adoption



Recipient segment	Annual bill & invoice volume estimated to be at least		Estimated electronic proportion of total volume in 2014		Estimated volume increase in electronic bills/invoices in 2015	
	World	Europe	World	Europe	World	Europe
Consumer	330 billion	18 billion	>8%	15%	15%	12%
Business & Government	170 billion	17 billion		24%		17%

Recipient segment	Europe		LATAM		North America		APAC Africa	
Consumer	2.7	➔	5	➔	4	➔	1.5	➔
Business & Government	4.6	➔	20	➔	2.8	➔	1	➔

Three involved promoters with divergent optimisation focus in current time period



- 1 **LATAM, Asia and increasingly Southern Europe**, closed electronic loop between 3 parties; **clearance model**
- 2 **Northern America**, optimisation of internal operation
- 3 **Europe**, holistic approach for collaboration supplier - buyer

Latam and Asia already addressing all “invoices” for digitisation



Considered in the Directive 2010/45/EU article 226b as “simplified invoices”.

The prescriptive (formal on invoice message basis) procedures were replaced or better enhanced with a focus more on results (integrity of invoice content).

The market at least in Germany demonstrably accelerated**

- 48 % of respondents trace back the increase of e-invoices directly to the legislation change in the European Union.
- Many businesses still feel unsure regarding the legal requirements; just 48% feel that they have sufficient information about digital invoice preservation.
- 69% of the interviewed businesses print received e-invoices for the internal work-flow; just 26% process it fully digitally.
- 35 % of invoice issuers and 40 % of receivers prefer e-invoices to paper invoices.

*) Give organisations more choice to meet the legal requirements (with or without electronic signatures)

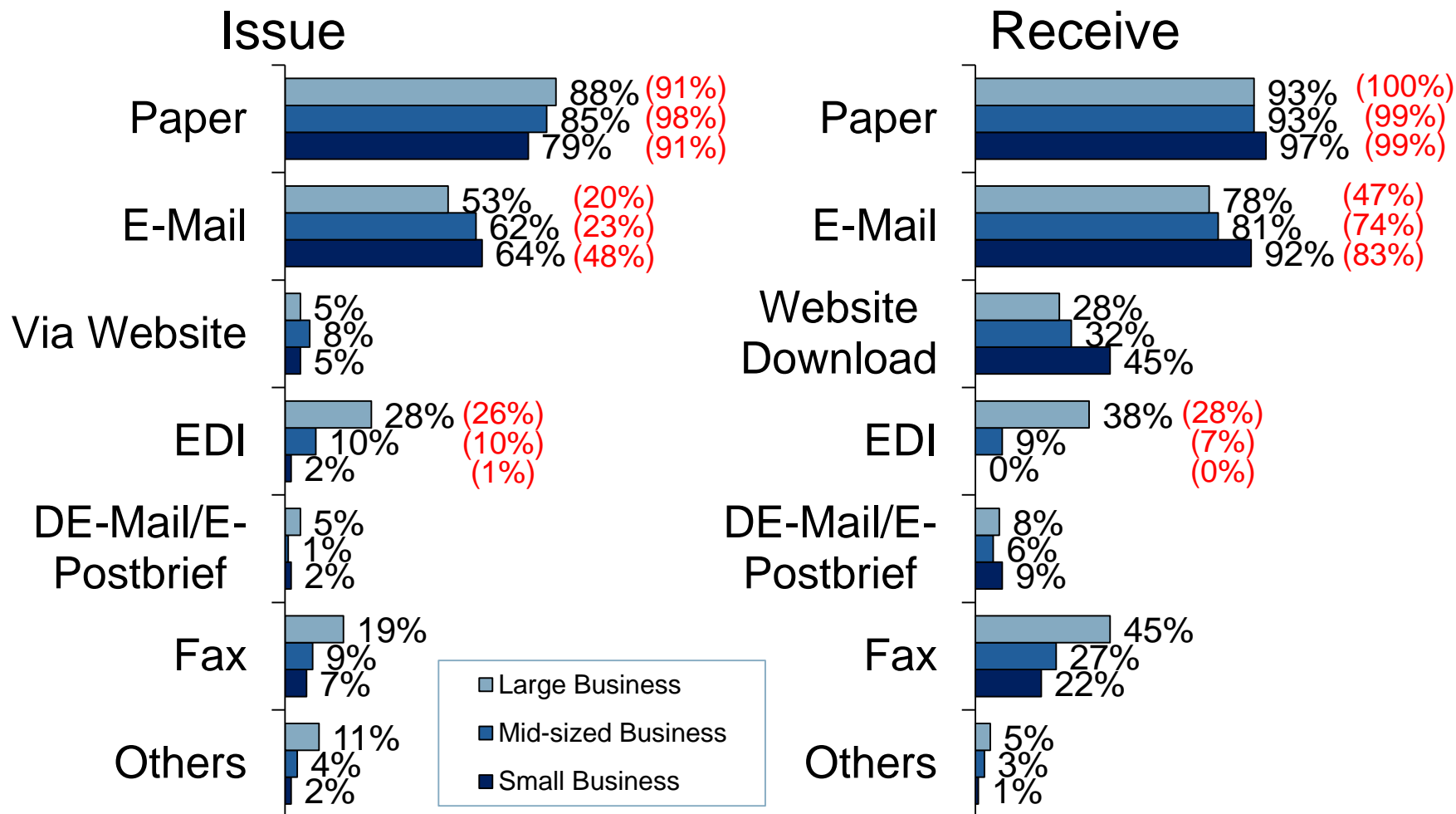
***) Source: ibi research, 2015, [Link](#)

Before & after implementation of Directive 2010/45/EU

How does your company send/receive invoices?



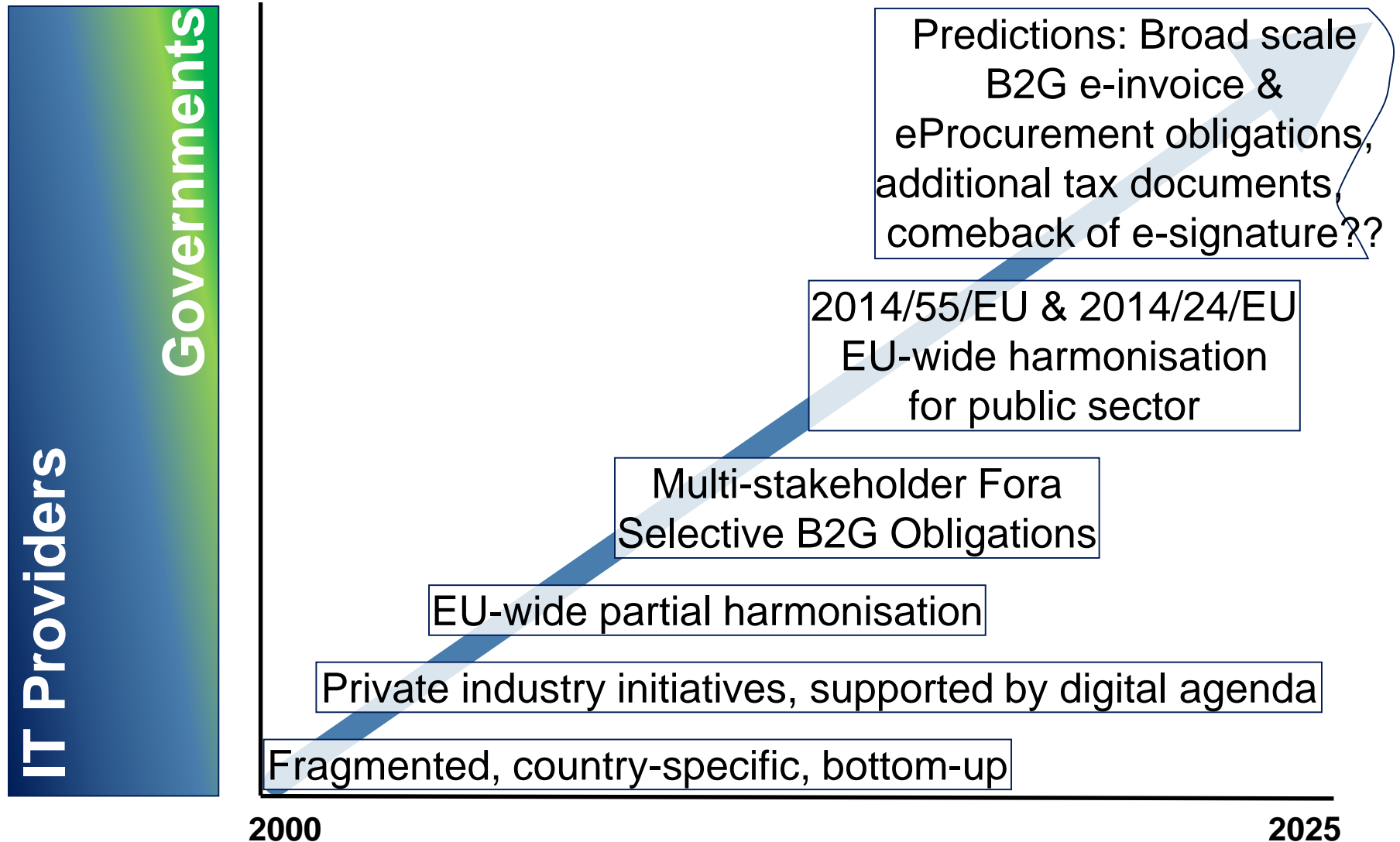
Invoice exchange methods 2015 (Focus Germany)



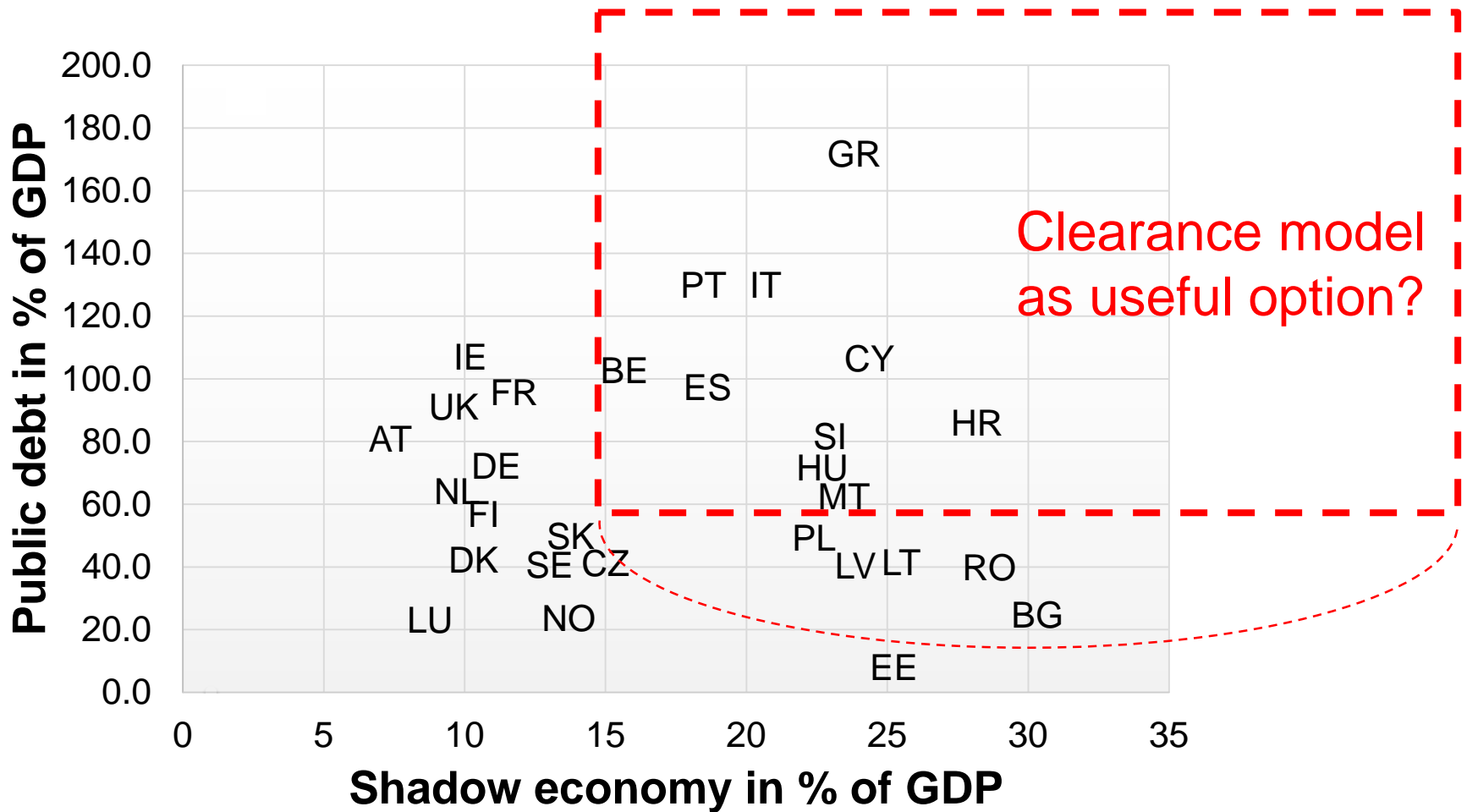
Source: ibi research, 2015, [Link](#)

(Values of comparable survey in 2011)

New European Government initiatives affecting the entire market development



Some EU countries as candidates for clearance model



Sources: Friedrich Schneider, Johannes Kepler University, January 2015 (Shadow Economy)
Eurostat (Public Debts), September 2015

Improve invoice data accuracy (1)

Current situation



“Main reasons for payment delays by domestic B2B customers”

	Incorrect information on invoice	Invoice sent to wrong receiver (internally)
Americas	26.3%	21.4%
Asia Pacific	25.7%	19.2%
Europe	15.1%	11.6%

Source: Atradius Payment Practices Barometer – November 2014

Exception handlings cost 3-8 times more than processing invoices with correct content.

Improve invoice data accuracy (2)

Incorrect information on invoice



Reasons

- Missing information as required by VAT law and/or customer
- Typing errors
- Wrong descriptions of purchases, wrong prices
- Solution does not support certain information fields
- Lazy invoice issuers

Potential solutions for improvement

- Closed electronic loop catalogues-orders-invoices
- Data synchronization between trading partners
- Stricter data validations by involved solutions and services

Improve invoice data accuracy (3)

Invoice sent to wrong receiver (internally)



Reasons

- Wrong/incomplete receiver address
- Typing errors
- Lazy invoice issuers

Potential solutions for improvement

- National business/government registries as the only source for invoice addresses of issuers and receivers
- Digital authentication by each user, certificates, e-IDAS
- Closed electronic loop orders and invoices
- Data synchronization between trading partners
- Strict data validations by involved solutions & services

Should Europe consider some more world trends and best practise?



Europe

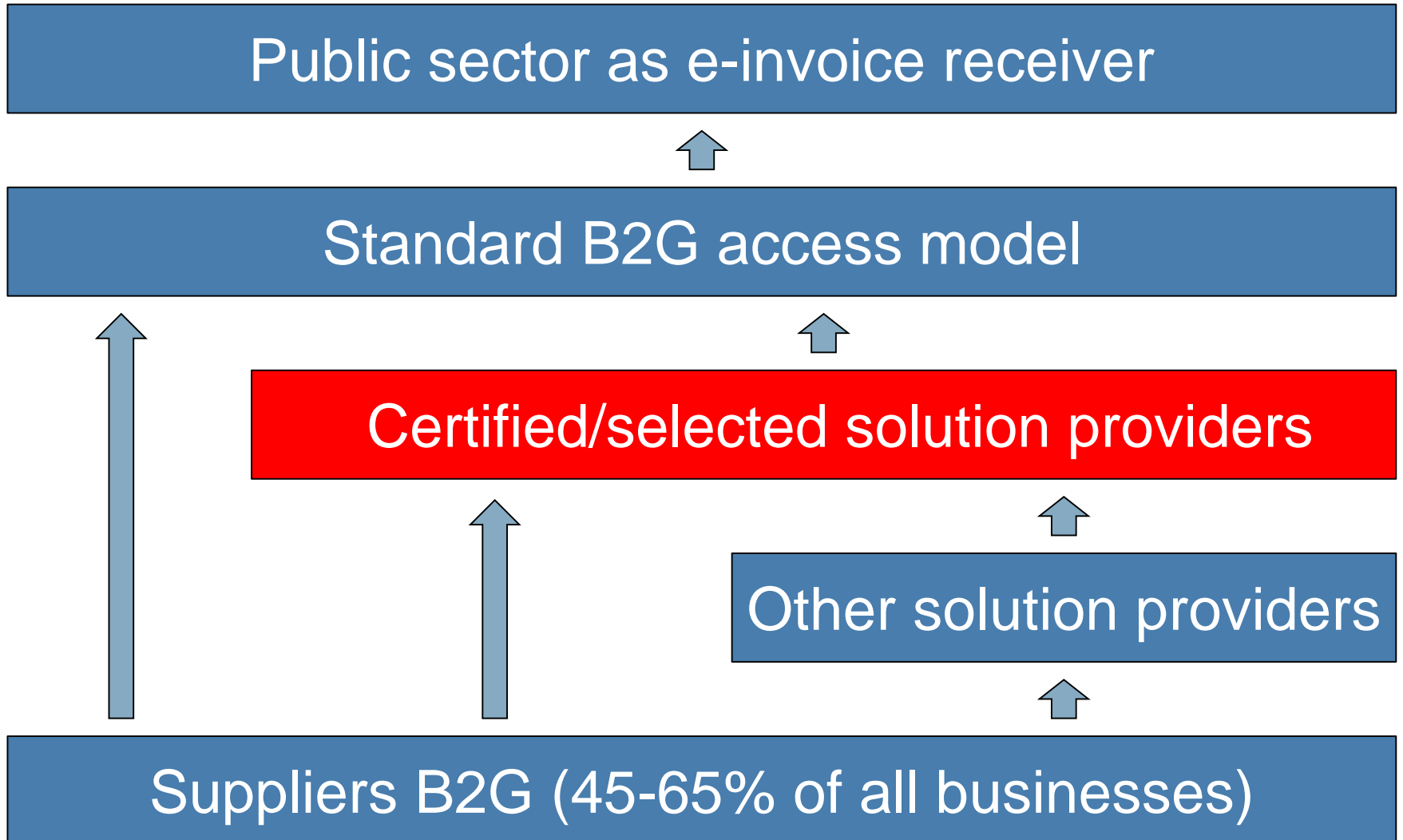
- Bottom-up development with expert and working groups
- Development cycles of 5+ years
- Typically voluntary usage for the businesses afterwards

More centralized regimes in Latin America and Asia

- Top-down model design and architecture (80% solution)
- Development cycles of ~2 years
- Discuss the model at working tables with key stakeholders
- Pilot with very influencing market players
- Mandated usage of the model for all organisations

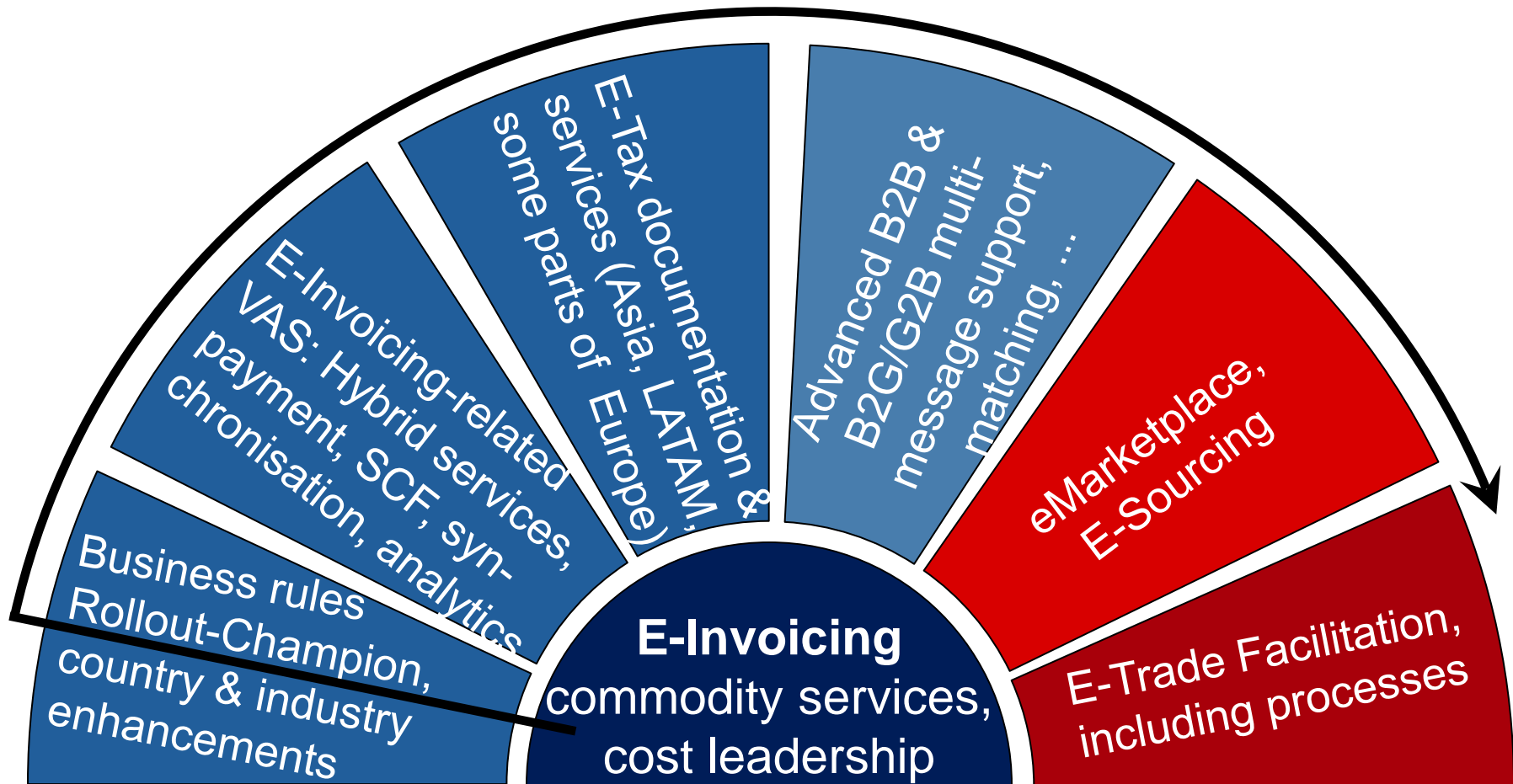
With all due respect for the federal European approach: From the starting point until a significant digital market adoption rate is the LATAM model 4-5 times faster than the European one. In addition is it based on standardised, structured and fully validated invoice data. In terms of quality and quantity is it superior.

Compromise to reduce shortcomings of the federal European model?



Source: Billentis, Implement e-invoicing in Australia using the transformed SBR, July 2015, [Download PDF report](#)

Future Markets Radar for Service Providers – Future Management



I expect these evolution steps in Europe

2016-2017: Trading parties and service providers will focus on increase of transactions; users increasingly react to value added services and recognize the USPs of various providers

2016-2020: Governments will select e-invoicing service providers just under strict conditions. In some European countries, consideration of simplifies electronic invoices and other tax documents will be required.

Costly evolution of e-invoicing and B2B network platforms towards eMarketplaces & sophisticated Business Process Automation platforms.

Questions?

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