Options for mandatory e-Invoicing adoption by businesses

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Author's Background

I have been responsible for design and implementation of Source to Procure to Pay processes and systems since 1997 for large, ASX listed, Australian companies that are active in a range of activities such as Catering and Facilities Management Services, Engineering Services, Utility Asset Owner and Operator and Manufacturers of industrial packaging and mining services related goods.

My expertise is specifically around process optimisation and system design to manage procurement related transactions and supplier invoice processing. In 2001 I led the introduction of e-invoices with our key suppliers using cXML. By 2005 we received in excess of 300,000 invoices electronically in this format enabling automatic matching of line items from POs to Invoice line items, compare pricing and quantities and handle substitutions and back ordered items.

Annual invoice counts for those businesses varied between 200,000 up to 1.5 million.

Executive Summary

This submission provides responses to the Consultation Questions on pages 16 and 19 of the "Options for mandatory adoption of electronic invoicing by businesses" provided by the Australian Government The Treasury, November 2020.

It recommends implementation of Option 1, mandating that all businesses be able to send and receive Peppol e-invoices because of its overall benefits open to businesses of all sizes.

In connection with the desire to reduce payment times from large to small businesses this submission notes that broad adoption of Peppol e-Invoicing would positively impact the timely processing and payment of invoices. It also notes that broader cashflow management and business to business differentiation should be allowed to be expressed and that the recent introduction of Payments Times Reporting legislation will potentially have a positive effect.

Consultation questions — Peppol e-Invoicing adoption

The responses offered in this submission are for Business to Business (B2B) or Business to Government (B2G) related invoices and specifically exclude Business to Customer (B2C).

Question 1: What are the barriers to businesses adopting Peppol e-Invoicing?

Barriers	**Mitigation Strategies**
1. Lack of motivation to enable e-invoicing due to limited demand by customers	When important customers mandate their suppliers to conform to certain requirements, suppliers will normally seek ways to comply if the cost of compliance does not outweigh the benefits (e.g. enabling ongoing trade and thus profits).

	A Government mandate will generate the motivation, as long as the cost of the solution can be held to minimal levels (see points 3, 4 and 6 in this table)
2. Insufficient awareness of the benefits available with universal acceptance of e-invoices by customers	Generating greater awareness of the benefits [1] will move some to e-invoice adoption programs. Without a government mandate it will have only limited impact.
3. Lack of transparency of available options, tools and pathways to be able to successfully implement solutions (as there are so many service providers and part-solutions). "Success" in the eyes of project sponsors is often defined as implementing "vanilla" or "out of the box (ootb)" solutions that do not consider true e-invoicing as the benchmark. Particularly for large businesses (re)implementing ERP solutions, the scope definition will often limit the project and thus fail to include true e-invoicing	Unless there is a general call to arms on adoption of e-invoicing many businesses will simply persevere with emailing of pdf invoices and utilising the standard output of their accounting packages. Providing clear solutions and ready-made specifications for (large) businesses for adoption will reduce time and cost of implementation.
4. Limited availability of simple add-ins to existing invoicing systems used by small businesses (such as Xero, MYOB etc.) to enable output of e-invoices in Peppol format to customers.	A mandate, along with competitive pressure from industry leaders such as Xero [2] will generate a platform for the creation of required add-ins to facilitate output of e-invoices in Peppol format.
5. Lack of business pressure to act on implementation of e-invoicing means it will not happen, there will be other priorities, see heading in the appendix "Voluntary Opt-in has not worked" 3rd bullet point.	For reasons noted in the Appendix section on Voluntary Opt-in vs. Mandatory Adoption, there will not be sufficient focus on e-invoicing in a large enough number of businesses to get any real traction on e-invoicing. Only a Government mandate would overcome this barrier.
6. Some existing ERP solutions fee structures count documents ingested from external systems to be compensated for use of the ERP for transactions not keyed in by a person. Such fee structures may act as a disincentive to 'bypass' the tools provided by the ERP SAAS.	A government mandate would generate pressure on the SAAS providers to amend their fee structure.

Question 2: What would be the costs and benefits of mandating Peppol e-invoicing?

- The overriding benefit of mandating Peppol e-invoicing is that it will ensure that Australian businesses will be gaining business efficiencies from the implementation. Without mandating the use of e-invoicing it will simply not become a reality – see Appendix on Opt-in vs. Mandate
- If the initial (implementation) investment (cost) could be written off in the one year this would aid business cashflow

[1] Pages 6 - 7 of "Options for mandatory adoption of electronic invoicing by businesses – November 2020"

[2] As per footnote 10 on page 11 of "Options for mandatory adoption of electronic invoicing by businesses – November 2020"

- Implementation costs should be relatively low for small business as they can use the portal solutions of a service provider (scenario 3 on page 10 of the discussion paper [3]).
- The financial benefits have been modelled by Deloitte Access Economics 2016. Providing a ready-reckoner tool for small, medium and large businesses would enable them to justify their investment cost to implement the Peppol solution. The efficiencies available should be made clear in the accompanying advertising campaign.

Question 3: What other factors should be considered when mandating Peppol e-Invoicing for businesses?

- Winning over the hearts and minds of the business community will be important. Simply mandating a potential solution that is seen as adding costs to the business will generate discontent and resistance.

  Modelling the various implementation costs and benefits available for representative businesses (particularly small and medium businesses) along the lines of "Nobody should be worse off under this arrangement" and in line with the fourth bullet point of question 2 above, will assuage concerns in the business community that this is an additional cost, but rather an opportunity to reduce cost.

Question 4: Which of the options outlined in this consultation paper would you support and why?

Option 1: The Government should mandate that all businesses be able to send and receive Peppol e-Invoices, starting with large businesses.

- What would be a reasonable definition of a large business for this purpose?
  - I do not propose yet another definition. Use the definitions from the Australian Government for Payments Time Reporting and ASIC [4]
- What would be a reasonable timeframe for large businesses to comply?
  - I would only note that the introduction of SuperStream and GST suggests that a period of 18 months to 2 years from having the roadmap solutions ready to go should be able to be made to work.
  - However, submissions from the e-invoicing service provider industry on what they need to ramp up may provide better insights on the timeframe for introduction.
- What would be a reasonable timeframe before extending the mandate to all businesses?
  - It will potentially be easier for small businesses to comply; their administrative processes are less complex. If business solutions such as Xero et al provide the necessary add-ins small and medium businesses could lead the way, rather than coming in later.
- Should there be any exemptions to this mandate?
  - Only Business to Customer (B2C) invoicing would be excluded.
- If some small businesses are exempted, how should this class of businesses be defined?
  - Similar to the definition of large businesses, adopting an existing definition from ASIC or Payment Times Reporting legislation.

[3] "Options for mandatory adoption of electronic invoicing by businesses – November 2020"
[4] See Appendix

Option 2: The Government should mandate only that large businesses be able to send and receive Peppol e-Invoices.

- Some reasons why I would not recommend this option are:
  - Many large businesses trade with a long tail of specialist small suppliers. Each supplier's invoice layout will likely be different, reducing the likelihood of good OCR data quality. This will lead to sub-optimal efficiency gains.
  - Small and medium businesses will also gain from adoption of e-invoicing but lack the tools. A mandate will generate further industry responses and a platform to push these out quickly.

Option 3: The Government should take a non-regulatory approach to Peppol e-Invoicing adoption by businesses.

- Are there specific non-regulatory action/s that you would/would not support the Government taking?
  - Australian businesses are increasingly required to submit information to government or their supply chain through the use of computers and the internet. It is virtually impossible to operate a business without the use of email and other computer-based software solutions. The days of fax machines and handwritten invoices should be consigned to the pages of history. For B2B transactions the same should be true of PDF invoices emailed to customers.
  - It is therefore my recommendation that while there is a burning platform due to COVID-19 to process business transactions electronically, and there is a mindset for change, that Government should use this time to focus business attention on this issue and require all businesses, small, medium and large, to act.

Consultation questions — e-Invoicing and payment times

Question 1: In your view, if the Government mandates the adoption of Peppol e-Invoicing for businesses:

• Would this result in a reduction in payment times from large to small businesses?

- Yes, but not necessarily due to reduced payment terms.

• How would this reduction occur?

- There will be fewer invoices getting "lost", either between the AP department and the business, or due to misinterpretation of invoice data, thereby reducing the number of invoices processed late.
- PO to Invoice matching will be more accurate as human error in transposing invoice information manually into the finance system is replaced with electronic data comparison.

Further comments about payment times:

Many large businesses experience internal ERP process compliance issues leading to bottlenecks that prevent timely payment, hence changing payment terms will not necessarily fix the issue.

- Large businesses 'loose invoices' at the ingestion phase, either due to software related OCR / ERP interpretation, site based and AP personnel timely processing, leading to delays and requirement for follow up by the supplier. Hence reducing payment terms only will not improve these issues. But e-invoicing will do much to improve these issues and thus remove much of the AP / AR reconciliation tasks.
- One of the key issues with the Supplier Payment Code is that the Business Council of Australia does not have a register of "small businesses". A large business may deal with some or even many thousands of suppliers. They will not know which ones are "small". The value of their annual spend does not indicate if the supplier is a small supplier. The newly created Payment Times Reporting

legislation and "reverse small business register" (by listing large businesses only any businesses not on the list are by definition "small") will help this.
However, the code is voluntary, opt-in.

Question 2: If the Government mandates the adoption of Peppol e-Invoicing, what other action could the Government take to reduce payment times further?

Trade Working Capital Management

- The matter of cashflow management is a much broader business issue than the actual processing of invoices between businesses. Some businesses value early payment more than others. Businesses with good cash reserves may prefer to negotiate other terms in return for longer payment terms. Hence the Government may reduce opportunities for businesses to differentiate themselves from others.
- The role of government in this area might be best served to minimise misuse of the power of large businesses to 'negotiate' overly long payment terms. Thus, in addition to the Payment Times Reporting Scheme" that shines the light on poor payment practices by large companies, the government could adopt any of the various State jurisdiction requirements for early payment such as the Building Industry Fairness (Security of Payment) Act 2017 (BIF Act) of Queensland, or the Building and Construction Industry Security of Payment Act 1999 No 46 of New South Wales.

Appendix

Adoption of an Industry Code, or indeed e-invoicing technology

Voluntary Opt-in has not worked:

- As the discussion paper[5] observes at page 19, the BCA payment code (ASPC) has had limited voluntary uptake since launching in 2017.
- EDI and EDIFACT technologies have been around for 6 decades, cXML for 2 decades, but there is still limited uptake for e-invoicing. In fact, true B2B interconnectivity between businesses is limited to businesses exchanging high volumes of transactions only to justify the ROI on set-up and maintenance costs. Consequently, uptake by business in general has been patchy and suboptimal.
- It has been my experience over the last 20+ years working with large businesses in the P2P space that they juggle competing priorities, many projects competing for limited resources, which often leads to revenue enhancing projects being prioritised while e-invoicing solutions struggle for attention. Consequently, the uptake of true e-invoicing (as opposed to OCR solutions to 'read' scanned invoices) is sadly still quite low.
- Billentis "The e-invoicing journey 2019-2025" on page 61, section 3.6.5.1 notes "only fifteen percent of CEOs are executing a digital strategy, even though 90% agree that the digital economy will impact their industry." This confirms industry experience that IT initiatives are focused on narrow priorities and e-invoicing solutions may not make it on the list of priorities unless mandated by government.

Mandates work:

- SuperStream gateway network was introduced in 2014 and came into effect by mid 2015, with a deadline for small businesses 30 June 2016.
- Introduction of GST – Businesses had no option but to cater for GST. There is universal compliance to accounting for GST. The law passed in June 1999 and GST commenced just **13 months** later. Every business needed to make the necessary changes to their systems and processes.

[5] "Options for mandatory adoption of electronic invoicing by businesses – November 2020"

- Necessity is the mother of invention. The discussion paper[6] notes on page 11 that with a mandate in the public sector only it could take many years for wide adoption.
  The introduction of a pathway to full adoption of e-invoicing for B2G and B2B invoices within the agreed timeframe will be the only way to achieve meaningful adoption and avoid decades more of slow and uneven progress.
- OpenText, Gregory Horton, eInvoicing Explained eBook, published by Wiley, 2018 states at page 8 "Over 50 governments globally have some form of e-invoicing mandate. Latin America leads the way with Mexico, Brazil, Peru, and Chile wielding hefty penalties for organizations that don't comply with their e-invoicing mandates for B2G and, increasingly, B2B transactions.
  The European Union (EU) was an early adopter of e-invoicing with over 30 countries now having mandates for B2G transactions and Italy becoming the first EU country to mandate it for B2B transactions in 2017."

The conclusion is almost self-evident that an Opt-in model will only lead to haphazard introductions leading to frustration and poor uptake, whilst only a mandate with a sensible timeframe for compliance will generate the necessary activity in the business community as well as respective service providers to ramp up to full compliance.

ASIC's definition of small proprietary company

From financial years commencing on or after 1 July 2019, a proprietary company is a small proprietary company for a financial year if it satisfies at least 2 of the following:

- the consolidated revenue for the financial year of the company and the entities it controls (if any) is less than $50 million;
- the value of the consolidated gross assets at the end of the financial year of the company and the entities it controls (if any) is less than $25 million; and/or
- the company and the entities it controls (if any) have fewer than 100 employees at the end of the financial year.

[6] "Options for mandatory adoption of electronic invoicing by businesses – November 2020"