

## THE NEXT TWO E-INVOICING S-CURVES: COLLABORATION AND MORE VALUE CONSIDERATIONS FOR A FUTURE-PROOF E-INVOICING STRATEGY

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An e-invoicing paradigm shift is needed if mass adoption of e-invoicing is to be achieved. New business models are needed that go beyond e-invoicing, and look to support the whole of the collaborative financial supply chains. This article explains the innovation curve of e-invoicing, and how service providers can successfully move upward on that curve and why interoperability between service providers is the key driver of this paradigm shift.

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Innopay is an independent consulting firm specialised in payments and transactional services. Innopay works for major international financial institutions, public sector and corporates helping in developing products, services, businesses and strategies in the field of transaction services. Innopay is member of EPCA ([www.epca-group.com](http://www.epca-group.com)), a pan European network of independent payment consultancies.

Electronic invoicing has been out ever since. It is practised in various industries for over 25 years, using technologies such as EDI over Value Added Networks (VANs) and later XML over the internet. Much is written about the increasing adoption rates of e-invoicing in the past years, and many believe that mass adoption of e-invoicing will be achievable in the years to come. In the meantime e-invoicing has become a significant topic for both national and European policy makers.

To understand where e-invoicing will lead us, we need to learn where it has brought us. This article will explore the history of e-invoicing and explain what will come in the future. It will help service providers to assess their readiness for the coming e-invoicing revolution.

### The e-invoicing innovation curve

E-invoicing has gone through a number of development stages, as we outline below:

#### Stage 1: Document exchange networks

This stage focused really on the dematerialisation of the invoice using structured formats, such as EDIFACT or XML. Cost benefits were realised by eliminating cost of paper, postage, and more efficient processing of inbound invoices. It was mainly applied in very tight supply chains dominated by a single powerful buyer (for example the automotive industry).

#### Stage 2: Linkage with other processes, such as payments, ordering, reconciliation

In this stage, service providers created some links with other processes. This included the creation of an invoice based on the purchase order (PO Flip), invoice status information, dispute resolution and matching of invoices, payments, and purchase orders. As in stage one, the adoption paradigm is driven by large buyers forcing SMEs into their e-invoicing service. As a result of this, e-invoicing is mainly adopted by supply chains with a strong relation between a supplier and large buyers. This is estimated to be between 40% - 45% of all B2B invoices. Without a revolution, e-invoicing adoption is likely to stabilise at 50% of B2B invoices.

#### Stage 3: The paradigm shift: broader availability of e-invoicing services to SMEs

In order to reach mass adoption (>80% of B2B invoices), the market of e-invoicing service providers should embrace an SME-friendly paradigm. This SME part of the market is characterised by a large number of companies with relatively small numbers of invoices (the longtail).

More and more service providers emerge with compelling value propositions for SMEs, addressing both the inbound and the outbound invoice flows. Have a look at the website of the most innovative e-invoicing service providers, and you will find one or more of the following concepts:

- Low cost and highly scalable infrastructure (cloud) that enables service providers to serve the long-tail of SMEs.
- SMEs can not only send invoices, but are also able to receive invoices from other companies.
- Another onboarding paradigm is required where SMEs are able to self-register for e-invoicing services instead of being onboarded by account teams of e-invoicing service providers.
- The 'freemium' business model where SMEs can register for basic services for free, and when they need more services, they will become a premium customer.
- A move towards supporting other financial supply chain processes, enabling such service providers to become the 'single window to financial supply chain management' for SMEs.

Interoperability between service providers is the key driver for this paradigm shift, as it allows SMEs to onboard to the service provider of their choice, while still being able to send invoices to other service providers.

The key issue in stage 3 is that the growing number of contenders in this market results in increasing fragmentation terms of addressable reach for both the supplier and the buyer. This is a phenomenon very native to nascent two sided markets. We have seen this problem in the payments arena and telecoms sector where this has been solved by standardisation and cooperation ('schemes'). Strong business leaders are required to take the lead in developing such an interoperable eco-system for e-invoicing.

#### Stage 4: Development of the next generation of e-invoicing services based on e-invoicing and related processes

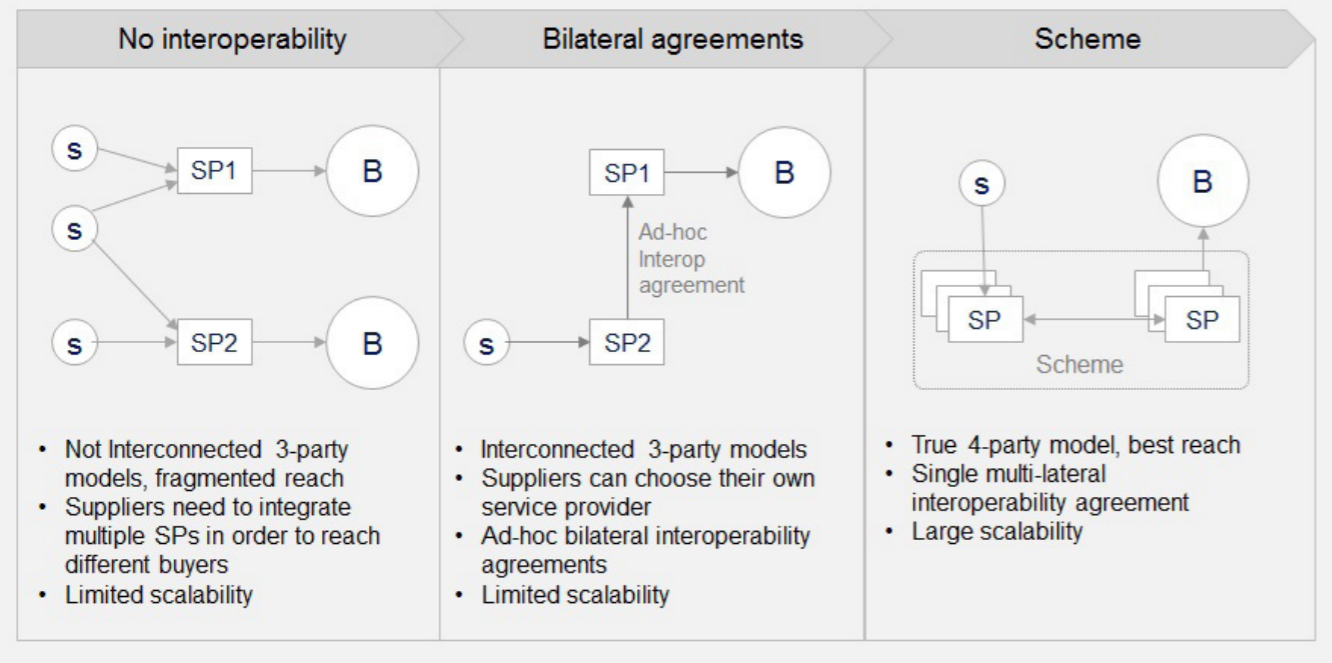
In the fourth stage, new innovative services are developed on top of e-invoicing, such as financing, dynamic discounting, liquidity management, B2B e-payments and other services.

One very interesting mechanism to accelerate the development of new services on top of e-invoicing is to open up the platform for third-party developers using APIs, a concept known from platforms such as apple, Facebook, Twitter, LinkedIn and Google. In such networks, a community of innovative product developers becomes an important and powerful driver for innovation.

Stage 5: The future is collaborative financial supply chains

## The road to an interoperable eco-system of e-invoicing service providers

Interoperability between service providers is one of the key criteria for an SME-friendly e-invoicing eco-system. Although there is a clear ambition for a true 4-party model organised as a scheme with a single multi-lateral interoperability agreement, the market is still exploring interoperability by engaging into multi-lateral interoperability agreements.



In the future an ecosystem of service providers will emerge that focus on optimisation across financial supply chains. This covers not only collaboration in e-invoicing, but also in related processes, such as e-finance, e-payments, e-ordering and e-cataloguing. Such service providers act more as 'B2B e-commerce collaboration platforms'. This includes a focus on the optimisation of the flow of capital between trading parties.

### Strategic options

E-invoicing service providers need to develop a strategy that enables them to remain competitive in the e-invoicing future envisioned above. Such a strategy should consider the following aspects:

1. Focus on corporate or longtail: Service providers may decide to focus on the optimisation of document flows for large buyers, really focusing on excellence in achieving STP processing of inbound invoices in large corporate environments. Such service providers must realise that the SME side of their network may erode over time, as SMEs will be better served by more SME oriented providers.

Other providers may choose to focus on serving the longtail of SMEs. Such service providers will be challenged to develop a 'one-stop shop' that supports not only the e-invoicing process, but all financial supply chain processes of SMEs. This would also include e-ordering, e-procurement, and e-payment.

2. Partnerships: An e-invoicing service provider will need to think about what partnerships to develop to integrate specific capabilities. Examples include partnerships with companies such as Taulia, Flinqer, InvoiceMarket, Bilbus, and also ERP vendors etc. that offer very advanced specialised capabilities related to e-invoicing.

One scalable, low cost and low risk way to achieve such partnerships is by developing a business model that allows third parties

to develop innovative services on top of your platform.

3. E-invoicing specialist or B2B e-commerce cloud: Service providers may decide to specialise in e-invoicing, and develop various services around e-invoicing. Other service providers may move up and downstream in the financial supply chain, also offering services around e-ordering and B2B e-payments.

4. Network effects: Although more and more service providers start exploring interoperability (allowing one of the trading parties to be through another service provider), they may still need to create network effects that provide a higher level of collaboration between trading parties that are with the same service provider. Such business models need to think of enticing value propositions for both sides of the market, as they are challenged to create network effects.

### Conclusion

Whatever strategy is chosen by e-invoicing service providers, innovation is the paramount topic which should be high on the agenda of e-invoicing service providers. The service provider that is able to offer innovative services that really help businesses to engage in collaborative financial supply chains, positions itself at the heart of the e-commerce transaction. Yesterday this position was held by banks with their transaction services. Who will it be tomorrow?

