

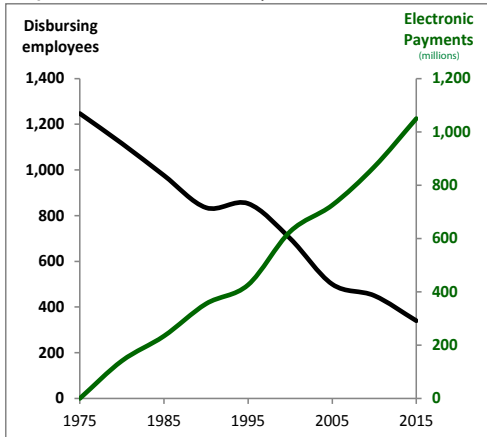


# Electronic Invoicing: Why It Matters

Federal financial management is at the end of one era and on the threshold of another. Over the past four decades, Federal agencies have adopted electronic payment methods that have saved the taxpayer billions of dollars.<sup>1</sup> But the transition to efficient electronic payments is now largely complete. Where is the next frontier of savings?

Today, the Federal government spends nearly 300 million dollars annually to process invoices from commercial suppliers of goods and services.<sup>2</sup> By converting this largely manual process to electronic, the government could create significant savings just as it has from electronic payments. The technology for efficient electronic invoicing is well-established and available to all Federal agencies. To continue the trend of financial efficiency that began in the 1970s, the Federal government should adopt electronic invoicing in the 21st century just as it adopted electronic payment methods in the 20th century.

Impact of Electronic Payments (1975 - 2015)



## A historical parallel

The Federal government was one of the first organizations to adopt Direct Deposit. When Treasury issued the first electronic salary payments for civilian Air Force employees in 1976, Direct Deposit was in its infancy. The Federal government's confidence in Direct Deposit contributed to its adoption across all of American commerce. Today, over 22 billion electronic payments – both commercial and governmental – are made annually.<sup>3</sup>

Direct Deposit has transformed how Treasury makes payments and has saved the taxpayer billions of dollars. In 1950, almost 2,300 Treasury employees disbursed paper checks in 29 facilities across the country.<sup>4</sup> Today, 95 percent of all Treasury payments are by Direct Deposit.<sup>5</sup> In 2014, Treasury issued five times as many payments as 1950 with less than 320 employees. And with Direct Deposit, the payee is receiving a faster, more reliable and secure payment.

## International adoption of e-invoicing

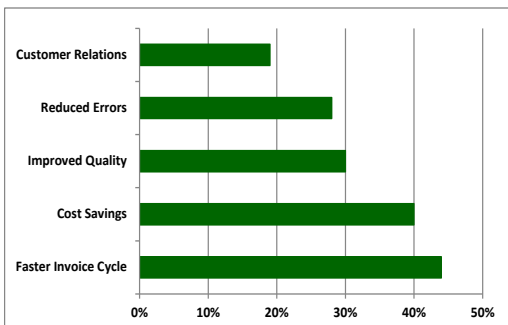
Other nations realize the benefit of electronic invoicing and have launched initiatives to increase its use. Thirty five countries have either mandated electronic invoicing for their national governments or have created incentives for its adoption.<sup>6</sup> In 2012, the European Union mandated electronic invoicing for public procurement by all of its member nations. Economic studies estimate the European Union might save over 2.3 billion Euros (\$2.5 billion) when all invoices for public procurement have been converted to electronic form.<sup>7</sup>

International Electronic Invoicing Initiatives 2015



- European Union (28 nations)
- China
- Brazil
- Chile
- Mexico
- Russia
- Kazakhstan
- Azerbaijan

Benefits Realized from Electronic Invoicing



## A benefit to business

Although electronic invoicing can produce enormous savings for the government purchaser, the private sector vendor to the government will benefit an equal amount. Each year, tens of thousands of private businesses supply over 500 billion dollars of goods and services to the Federal government.<sup>8</sup> Submitting paper invoices to a Federal agency is as burdensome to the vendor as it is to the agency itself. Typing a paper invoice, mailing and filing it prolongs an archaic paper-based process in an otherwise all-electronic modern business office. The Finnish Treasury found that private vendors to the government saved 57 percent when submitting electronic invoices.<sup>9</sup> But cost saving is not the only benefit for the vendor. A survey of international businesses found that private sector vendors are adopting electronic invoicing for a faster invoicing cycle, more accurate data, better cash management and improved customer relations – not just cost saving.<sup>10</sup>

## The potential for Federal savings

The recent benchmarking survey by Federal Chief Financial Officers found that the 24 CFO Act agencies spent over 297 million dollars processing 19.1 million invoices in 2013. Only 38 percent of these were in electronic form, largely due to the departments of Defense and Veterans Affairs, two agencies that vigorously embraced electronic invoicing over a decade ago. The Federal government still processes over 12 million paper invoices per year at an estimated cost of about 230 million dollars for those paper invoices alone.<sup>11</sup> A survey of all available research reveals that processing an electronic invoice is at least 50 percent cheaper than a paper invoice.<sup>12</sup> These studies are surprisingly consistent in their estimates. Regardless of whether they were conducted by private firms or public agencies, European or American, the estimated savings are within a narrow band between 45 percent and 65 percent. At Treasury, our first-hand experience confirms these estimates. When the Bureau of Engraving and Printing implemented electronic invoicing, they realized a 48 percent savings. Although the results of a single study cannot be precisely applied to an enterprise as large as the Federal government, the studies do provide an order-of-magnitude indication of the potential savings. Assuming that the Federal government could realize the 50 percent savings that the seven independent studies suggest, the potential savings could be on the order of one hundred million dollars per year when all invoices are electronic.<sup>13</sup>

Study	Estimated Savings
	e-Invoice v. Paper
Institute Of Financial Operations, 2013	49%
Bruno, Koch & Billentis, 2013	62%
U.S. FMS (for BEP), 2009	48%
U.S. FMS (for Denali Commission), 2009	61%
Aberdeen Group, 2007	47%
Killen & Associates, 2004	67%
City of Tempere Finland, 2010	52%

## Conclusion: Is electronic invoicing at the tipping point?

Federal agencies have shown a growing interest in electronic invoicing. Currently, seven of the 24 CFO Act agencies have established electronic invoicing capabilities and eleven more have expressed an interest in implementing some capability in the near future.<sup>14</sup> Over a hundred thousand vendors are currently enabled for electronic invoicing with the Federal government.<sup>15</sup> The early adopters have proven that electronic invoicing can produce benefits for Federal agencies and vendors and savings for the taxpayers as well. The tipping point will be reached when the Federal government mandates electronic invoicing just as it mandated electronic payments in 2010.<sup>16</sup>



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### Footnotes:

1. "Annual Cost Accounting Report, 2010" (internal report), Bureau of the Fiscal Service, shows that the average total processing cost (disbursing and post-payment) for an electronic payment is \$0.102 versus \$1.02 for a paper check. The bureau has disbursed over 800 million electronic payments annually since 2008. The "Impact from Converting Check to EFT Report, 2010" (internal report) from the bureau calculated \$303 million in savings for the five year period FY 2011 to FY 2015.
2. "Presidential Management Agenda Benchmarking Initiative", General Services Administration, 2014
3. "ACH Network Statistics 4Q 2014", National Automated Clearinghouse Association ([www.NACHA.org](http://www.NACHA.org)), 2015
4. All headcount data for Treasury disbursing prior to FY 2000 is from "Budget of the United States, Appendix" for FY50, FY75, FY80, FY85, FY90 and FY95, General Printing Office. Disbursing headcount data after FY 2000 is from Bureau of the Fiscal Service internal budget reports.
5. "Monthly EFT Report, September 2014", Bureau of the Fiscal Service, 2014
6. "E-Invoicing/E-Billing: The catalyst for AR/AP automation", Bruno Koch – Billentis, 2013
7. "Electronic Invoicing will boost EU's competitiveness", Parliament Magazine, March 2014
8. Federal Procurement Data System ([www.fpbs.gov](http://www.fpbs.gov)), 2015
9. "Transition to e-invoicing and post-implementation benefits", Aalto University School of Economics, Finland, 2010
10. "2012 Global E-Invoicing Study", The Institute of Financial Operations, 2012
11. Estimated from benchmarking data cited in 2 adjusted for the 7.2 million electronic invoices processed by the U.S. Department of Defense (DoD) WAWF system, U.S. Department of Veteran Affairs (VA) OB10 system, U.S. Department of Energy VIPERS system and U.S. Treasury Invoice Processing Platform (IPP) service; combined with the assumption that an electronic invoice can be processed at one-half the cost of a paper invoice.
12. The studies in this tables are The e-Payables Benchmark Report", Aberdeen Group, 2010; "Purchase to Payment Process Automation", Killen & Associates, 2004; "The Internet Payment Platform Response to OMB Request for Savings and Cost Estimates (internal FMS report) 2009; plus reports cited in 6,9,10, above.
13. A study conducted by PriceWaterhouseCoopers for Treasury's Office of Financial Innovation and Transformation estimated that the Federal government could save \$266 million annually when e-Invoicing is fully implemented. "Electronic Vendor Invoicing and Payment Processing – Business Case Analysis" (internal contractor report), PriceWaterhouseCoopers, January 2011.
14. "Weekly IPP Outreach Report" (internal Bureau of the Fiscal Service report), April 2015
15. Estimated from the 89,000 vendors currently enrolled in Treasury's IPP plus the estimated number enrolled in DoD's WAWF system and VA's OB10 system.
16. "Management of Federal Agency Disbursements", 31 CFR Part 208, Final Rule, Department of the Treasury, Fiscal Service, December 22, 2010