



Automating Payables for the SME Market

A Big Bang for the Buck

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CHROMERIVER

Challenges SME Organizations are Facing in AP Operations

Factors Driving SME Interest in Invoice Automation

Purchase-to-Pay Functionalities Available with Invoice Automation Solutions

Best Practices Companies are Using to Complement Technology Initiatives

Key Players in the SME Market

Selecting a SME Payables Solution

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Executive Summary

Until recently, accounts payable (AP) automation initiatives were largely limited to Fortune 1000 companies, which had the human and capital resources to implement and manage these applications. Today, we are seeing this trend trickle down to small and medium enterprises (SME) - those with annual revenues under \$250 million - because of two major factors:

1. Small and medium-sized companies are struggling with manual, paper-driven processes and are realizing that automation can alleviate most of the challenges they face in their day-to-day operations.
2. The availability of affordable, easy-to-implement and use technology solutions is driving a renewed interest in AP automation for these smaller organizations.

To a large extent paper is the enemy. It is still prevalent, but according to our latest survey data, 64 percent of supplier invoices are traded on paper, down from 77 percent as recently as 2010. And that percentage has been dropping at a rate of 5 percentage points each year for the past couple of years. To continue declining, however, there will need to be much more SME participation in the automation of financial operations.

Advocates have long lamented the slow march of automation. They are understandably frustrated to have travelled this far and still have companies reporting that only 13 percent of their suppliers are submitting a majority of invoices electronically. But progress has been achieved. AP practitioners report 80 percent of their suppliers are now submitting at least some invoices electronically. This trend is likely to accelerate in a protracted, tight-credit economy as the cost and complexity of electronic collections decreases and suppliers become increasingly motivated to recoup cash that would otherwise be trapped in the paper payment cycle.

On the purchasing side, only about one in four companies holds fast to their paper processes, down from 40 percent a year earlier. Improved productivity and workflow dominate the list of buyer benefits that are primarily driven by improvements in AP efficiency. Meanwhile, barriers to adoption continue to fall, as lower costs and increased support from executives drive down the number of companies reporting that they are satisfied with older processes.

While numerous AP automation options have been available for many years, SMEs are just now starting to dip their toes in the automation waters. Financially savvy SMEs understand that automating the AP department has tremendous potential to not only deliver tactical benefits around cost containment and productivity enhancements but also strategic advantages around supplier relations and working capital improvements.

PayStream Advisors has developed this Technology Insight Series report titled "Automating Payables for the SME Market: A Big Bang for the Buck" for small and

mid-sized enterprises with an interest in payables automation. Here you will find the latest adoption statistics, current thinking, best practices, strategies, and key performance indicators for evaluating and selecting the solution that meets your needs.

In addition to trends and analysis of the latest survey data, this report profiles seven leading solution providers and offers case studies illustrating how others have used payables automation technologies to accelerate approval cycles, improve productivity, capture discounts, strengthen working capital positions and improve trading relationships.

PayStream Research Library

Automating Payables for the SME Market is one of many reports in our corporate research library, including these other titles:

- » eInvoicing Adoption Benchmarking Report
- » Dynamic Discount Management: Finding the Treasure in Treasury
- » Electronic Invoice Management: The Cloud's Silver Lining
- » Electronic Supplier Payments: Innovation Drivers for Corporate ePayments - ePayments Explosion!
- » Invoice Automation Adoption Survey Report

Understanding the SME Universe

Operating Environment

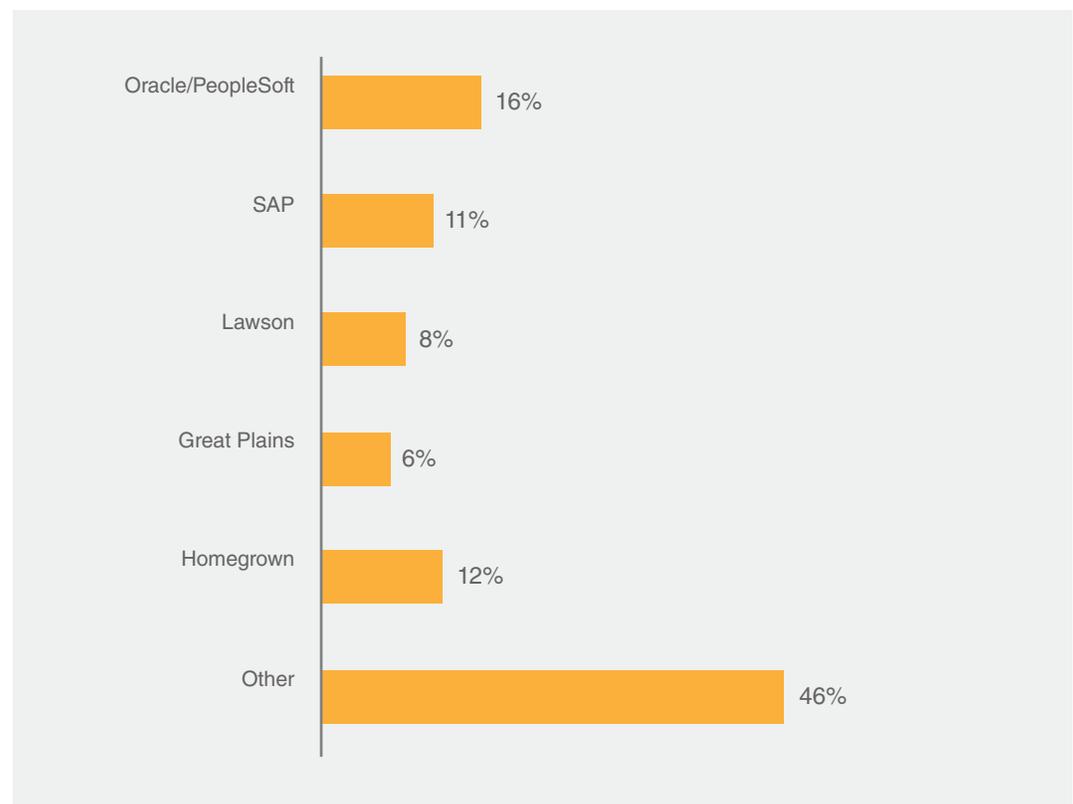
Large enterprises have the human and capital resources to invest heavily in financial operations automation. This is not the case for small or mid-sized business. As a result, most new technologies are built with large enterprises in view. It is simply a fact of nature that software development firms find it easier from a profitability perspective to serve large enterprises as opposed to the SME universe. Not until the technologies mature and competition helps bring down costs do technology vendors begin looking at ways to leverage the opportunities presented by the much larger pool of smaller organizations.

Figure 1

*Leading ERP Systems
Utilized by SME's*

*Just over 2 out of 5 SME's
utilize one of the leading
ERP solutions*

*The majority turns to
homegrown systems or
niche products*



As a result, an SME is likely to rely on a low or mid-range ERP system to manage their financial operations, and the very smallest turn to mass-market products like QuickBooks and Peachtree. Just over 2 out of 5 SME's utilize one of the leading ERP solutions. The majority turns to homegrown systems or niche products, which are often targeted at an industry vertical, and that for the most part provide a transactional accounting system with limited automation bells and whistles. In other words, feeding the software requires a lot of data entry, which in turn generates reams of paper documents.

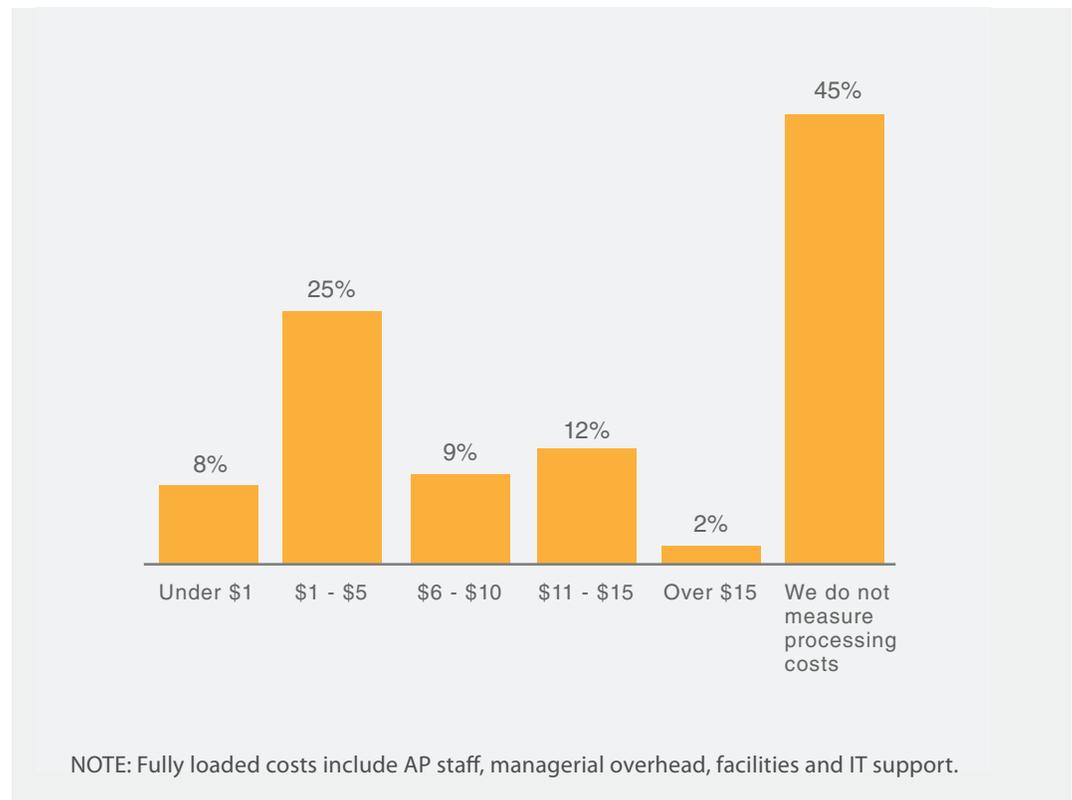
Considering this, it is no surprise that manual processes predominate in the typical SME accounts payable function, which for 83 percent will have 10 or fewer employees. That may not be a problem when the organization is very small, but as transaction volumes increase, the impact on an SME can be disproportionate due to limited resources. Lacking the scale of larger enterprises, many SME's have much less flexibility in allocating resources to overcome AP processing challenges.

It should come as no surprise that the SME universe is all over the map in terms of invoice processing efficiency. A sizable segment has done a good job controlling the cost of processing invoices, but many have not done as well, and nearly half do not even measure the cost, the assumption being that many of this latter group lack the systems to easily measure invoice processing costs and that therefore their costs will likely tend to the high side.

Figure 2

Average Fully Loaded Cost to Process an Invoice

While a sizeable segment of the SME market is doing a good job of controlling the cost of processing invoices, nearly half do not even measure the cost



Organizational Structure

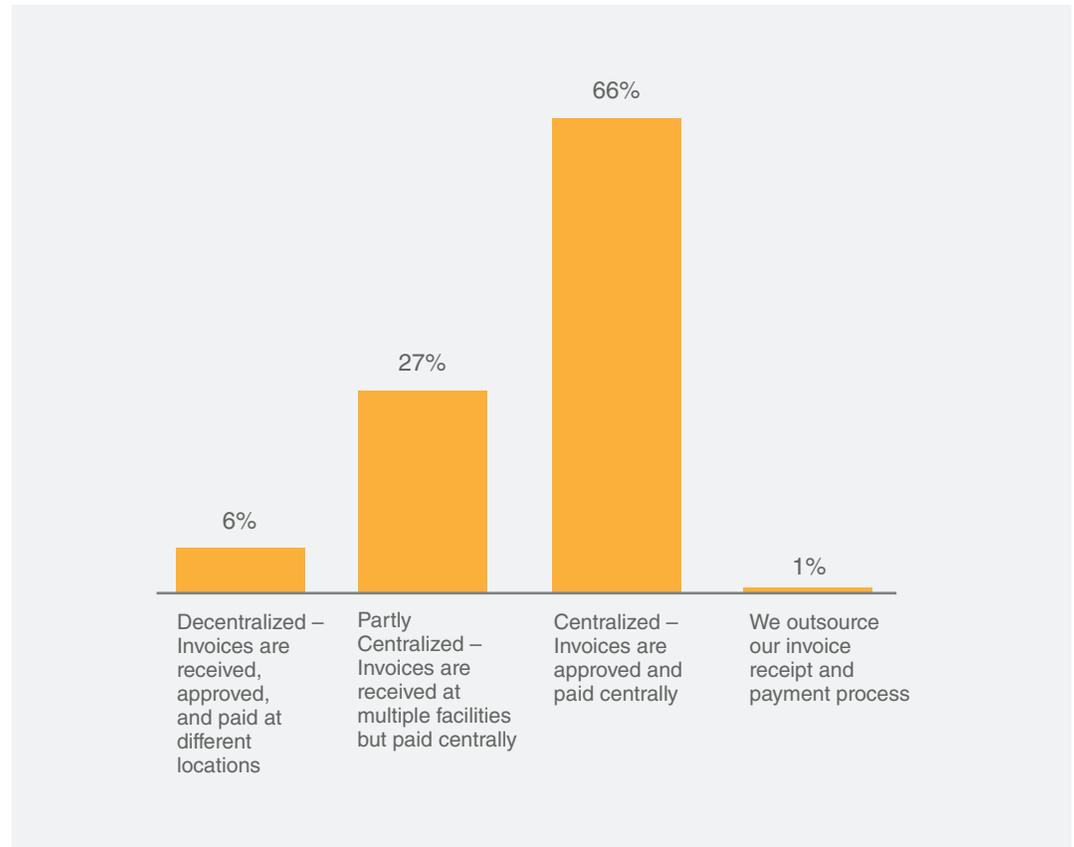
Because of their lack of organizational scale, the overwhelming majority of SME accounts payable departments are centralized. In large part this is because many are single location enterprises. There is only a small minority, 7 percent, that are decentralized or that outsource the invoice receipt and payment process. Even when an SME has multiple locations, payments are centralized even if invoice receipt is at multiple facilities. It is interesting to note that 24 percent have AP in

a shared services center. The bottom line is that AP processing from an SME perspective is likely to be much less complicated and more straightforward than for larger organizations, and in theory that should make the implementation of automation easier.

Figure 3

Nature of SME Accounts Payable Departments

The majority of SME accounts payable departments are centralized



Receptivity to Automation

Despite the large company bias inherent in automation solutions, the typical SME organization is not predisposed against automation. Nearly 3 out of 5 have already taken the plunge and adopted some degree of automation and just as many claim significant investments in technology as those who have done nothing. Given the right tools, it appears that SME's are clearly willing to investigate ways to improve efficiency by adopting automation. However, they appear to need guidance with regard to how they can achieve the most bang for the buck – 43 percent claiming to have adopted some advanced automation technology without realizing significant impact.

In terms of the types of automation SME's have already adopted, electronic payments and P-cards have made strong inroads. Even so, the adoption of front-end imaging, automated data capture and automated workflow – in other words automated invoice processing – is still significant. Moreover, front-end imaging tops the list of technologies that are the most likely for an SME to adopt next.

Figure 4

Where SME's See Themselves

Nearly a quarter of SME's surveyed are evaluating some advanced automation tools

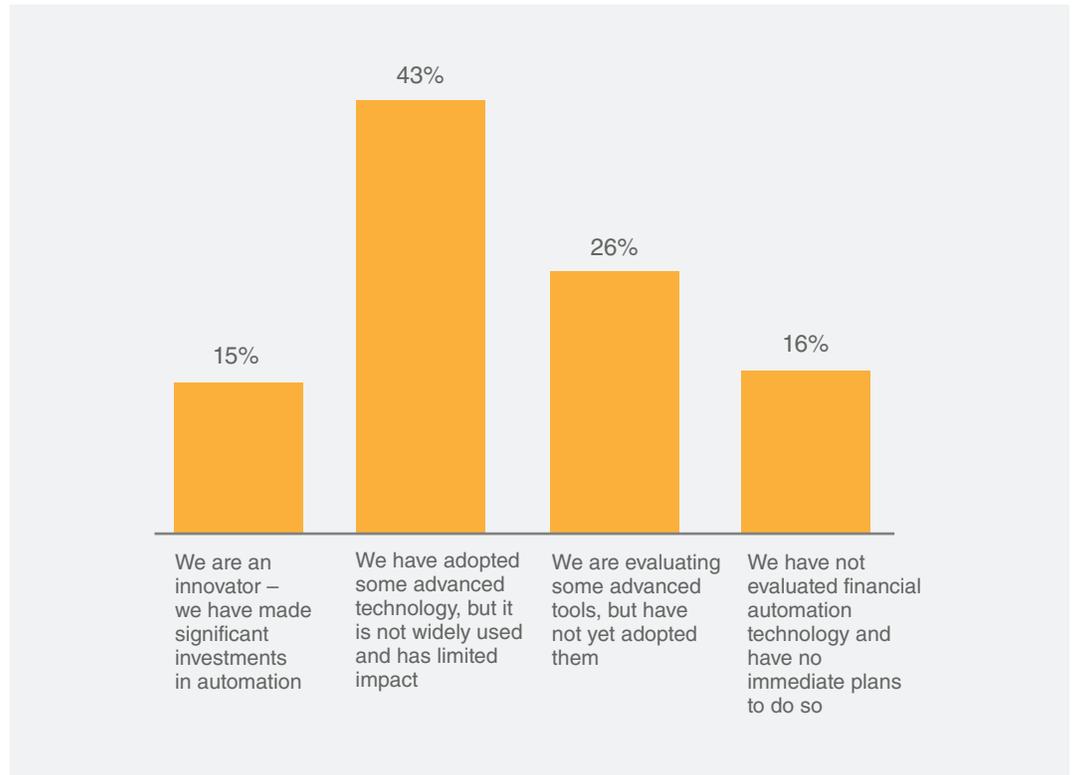
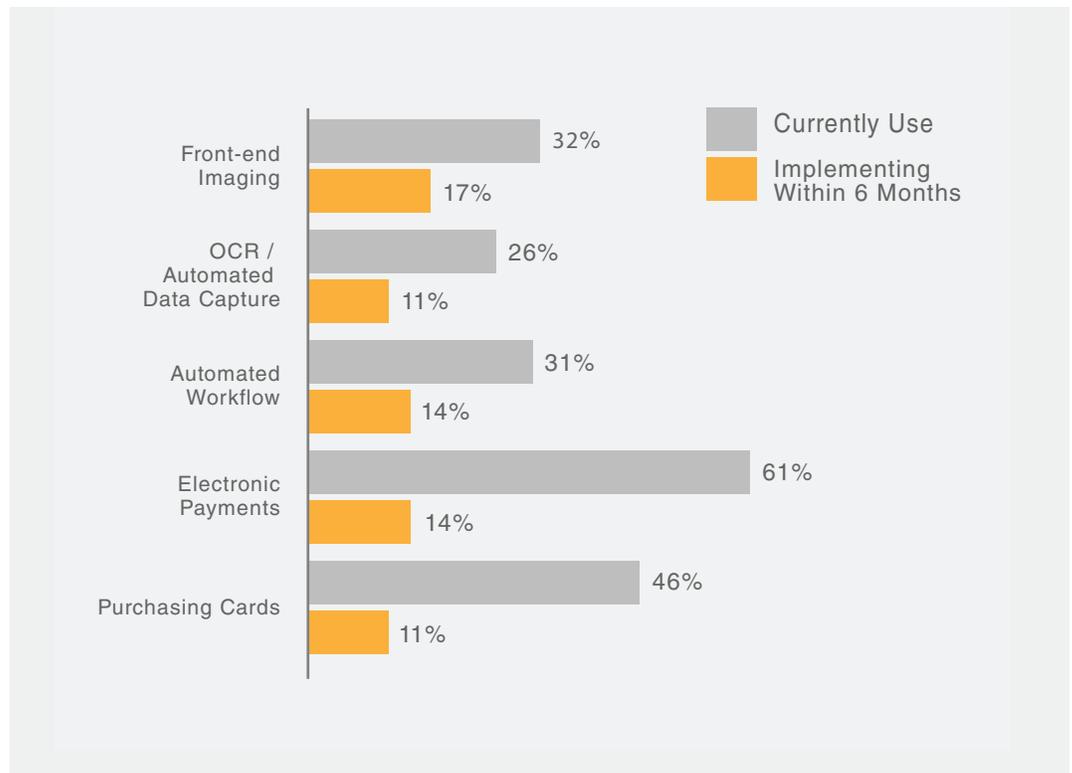


Figure 5

Technology in Use or Planning to be In Use Within Six Months

Electronic Payments and P-Cards have made strong inroads and are currently in use in over 60 percent of SME's surveyed



Clearly, there is an interest in moving from paper to electronic documents, which will in turn open up other improvement opportunities.

Other issues are less important to an SME. Most (83 percent) report that they have less than 10 percent of spend available for discounting on an annual basis and not quite a third (31 percent) report capturing discounts is a priority. For most SME's, then, dynamic discounting will not generate significant benefits.

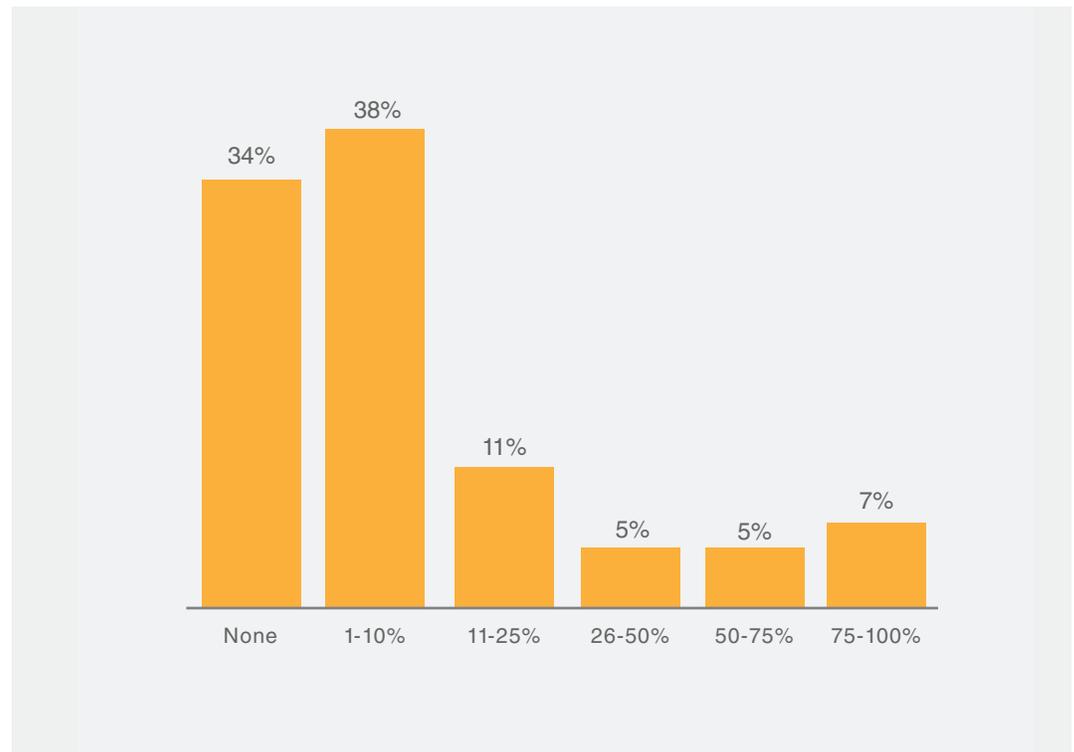
Another contributing factor is that very few SME's are receiving significant volumes of invoices by electronic means. Nearly 3 out of 4 capture 10 percent or fewer invoices via EDI, XML, Web Portal or electronic invoicing network and therefore do not require any data extraction or manual data entry.

The typical SME does somewhat better in regards to electronic payments, but there is still a long way to go. While 4 out of 5 have electronic payment capabilities, only 12 percent pay at least half their bills electronically. Supplier portals or

Figure 6

Percent of Invoices Received Electronically

Few SME's are receiving significant volumes of invoices by electronic means



networks are often used to facilitate electronic invoicing. Suppliers are able to upload invoices, enter invoices manually, or flip a purchase order into an invoice. Whatever means is used to capture the invoice, it can then be routed automatically through the payables approval process. Though there is considerable interest in these solutions, relatively few SME's have taken the plunge.

Cost is the primary concern. Nearly 2 out of 5 SME's cited budgetary considerations or lack of a ROI as the reason for not considering supplier portals or networks. Another 1 out of 5 do not see a need since their current processes

Figure 7

Percent of Invoices Paid Electronically

Only 12 percent of SME's reported paying at least half of their bills electronically

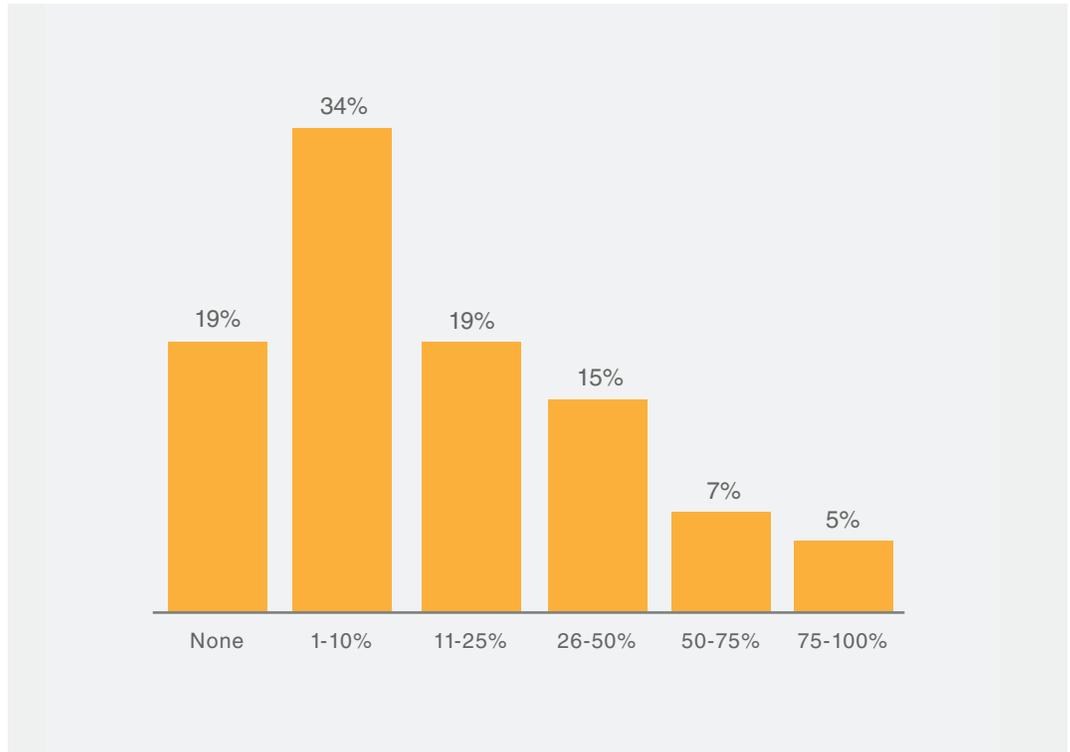
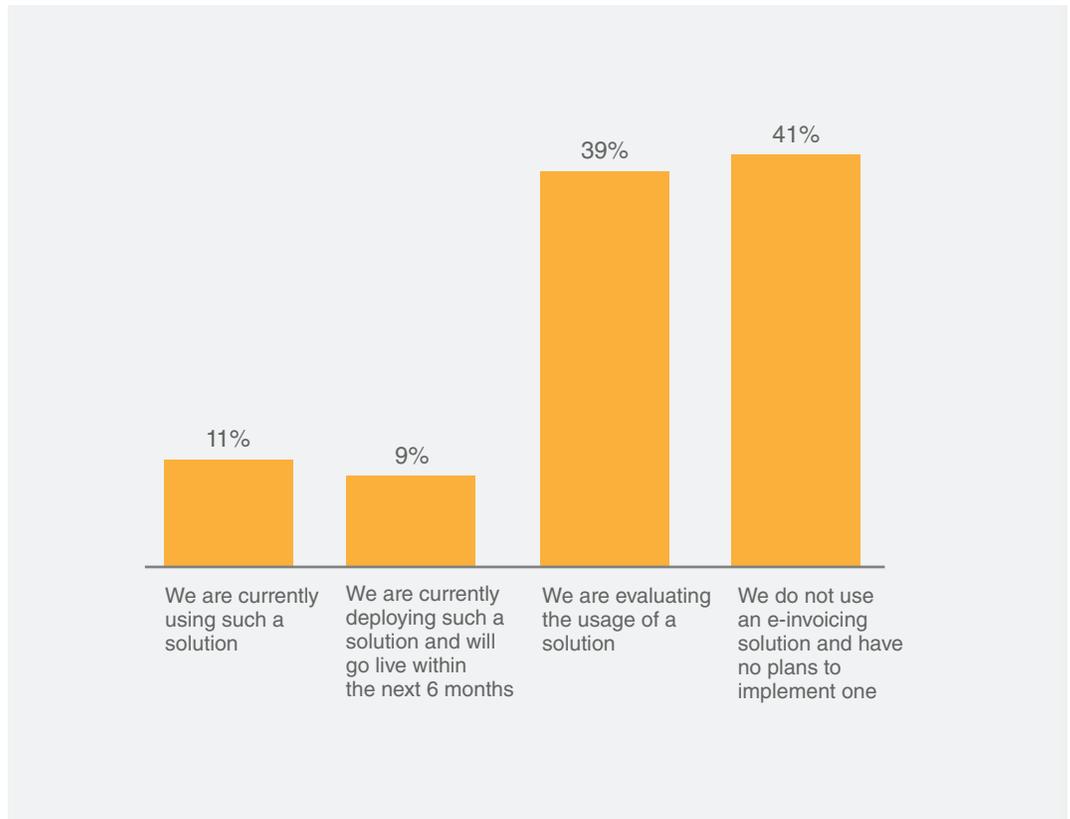


Figure 8

SME Usage of an Electronic Invoicing Solution

Eleven percent of SME's are currently utilizing an e-invoicing solution and 39 percent are currently evaluating the usage of such a solution

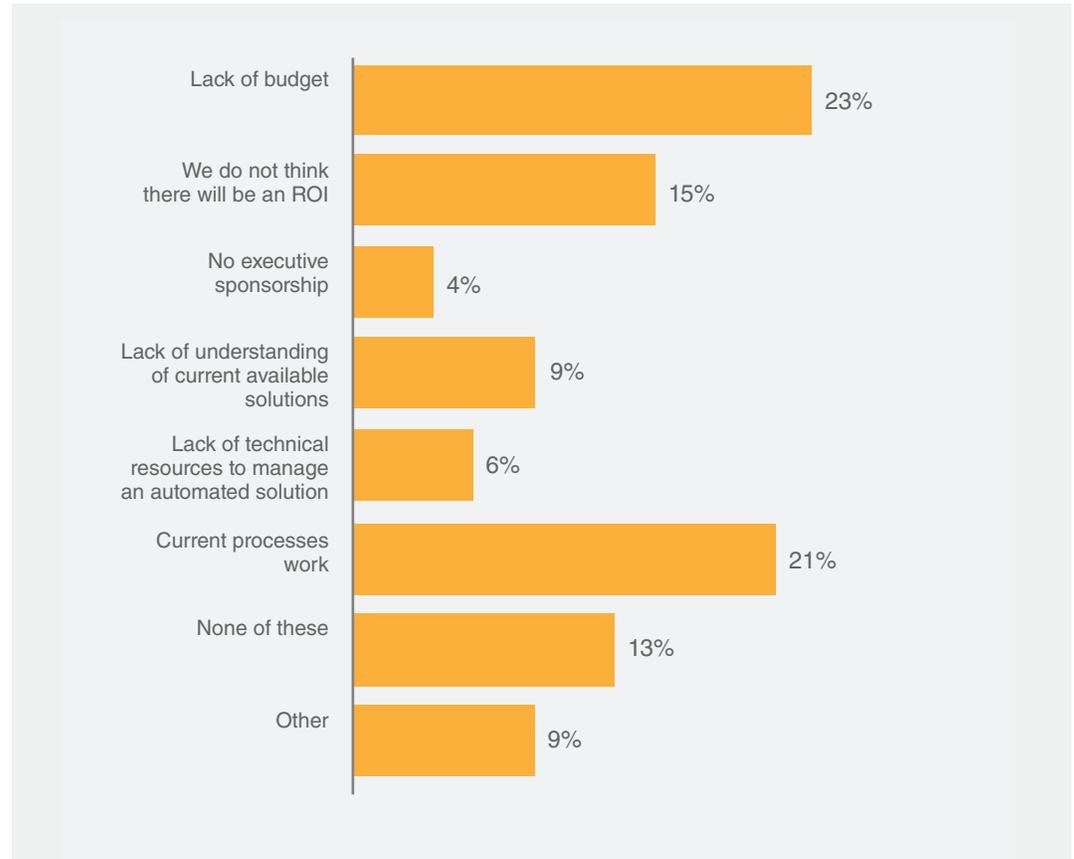


are working adequately. PayStream expects these numbers to shift as more solutions are directed at the SME market. Even so, SME acceptance of the value proposition of implementing supplier portals and networks is a challenge the vendors will have to overcome.

Figure 9

Barriers to Electronic Invoicing

Nearly 2 out of 5 SME's reported budgetary considerations or lack of a ROI as the top reason for not considering supplier portals or networks



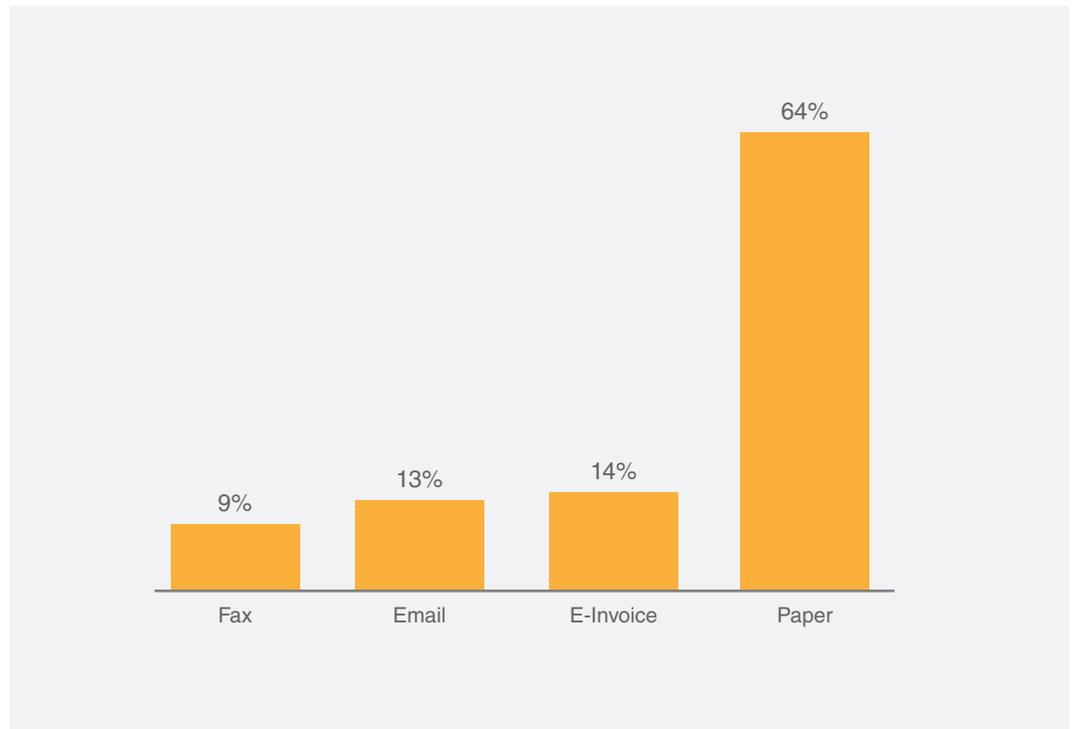
SME Challenges and Opportunities

Paper invoices, manual data entry, and inefficient processes are still the order of the day. But when we look at the entire commercial marketplace, signs point to an approaching imaging and automated workflow tipping point. The convergence of electronic invoicing and front-end invoice imaging presents organizations with a single comprehensive solution that can manage both paper and electronic invoices through a common automated process.

Figure 10

Methods Used to Exchange B2B Invoices

Paper still dominates. Sixty-four percent of invoices are traded via paper



In just a little over a year, paper invoices, which accounted for 77 percent of supplier invoices in 2010, have dropped to less than two thirds of invoice volume. Only one in every ten companies surveyed said they were satisfied with their old paper system, and four out of five companies were on track to replace their old system within five years.

Manual processes are the enemy of efficiency. There are keying errors to start, but also the burden of manual routing, which frequently leads to invoices held hostage pending approval, or even lost paperwork and a high number of discrepancies and exceptions. Routing of invoices in paper form is time consuming and leads to other problems downstream, including a lack of visibility into outstanding invoices and the inability to capture supplier discounts. In summary:

- » The biggest invoice management challenges are related to an overreliance on people and paper-based processes, and the high number of discrepancies and exceptions associated with such a system.

- » Although invoice automation remains predominantly accuracy and efficiency driven, momentum is building for broader application as a management information tool. Emerging concerns related to this are discount capture and spend visibility.
- » Streamlining the AP process is vital in a tough economy where adequate cash flow and greater control over payables is critical to maintaining liquidity and sustaining business operations.

No wonder, then, that front-end automation and automated approval workflow are the top financial automation goals at companies surveyed by PayStream Advisors. Today's accounts payable professionals recognize that AP automation is more than just efficiency tools but also serves to improve spend analytics, cash management and vendor relationships. Increasing electronic invoicing has been the top priority for AP professionals for more than a year, a trend that underlines the desire to squeeze paper out of the system, and by getting rid of the paper they solve a host of quality issues while also improving efficiency, which drives down costs.

The benefits of paper to electronic conversion also hold true if you are turning to electronic payments or e-procurement. Moving from manual, paper-based systems to an automated environment enhances visibility in the form of

Figure 11

Challenges In the Invoice Management Process

SME's are making significant strides in reducing manual data entry

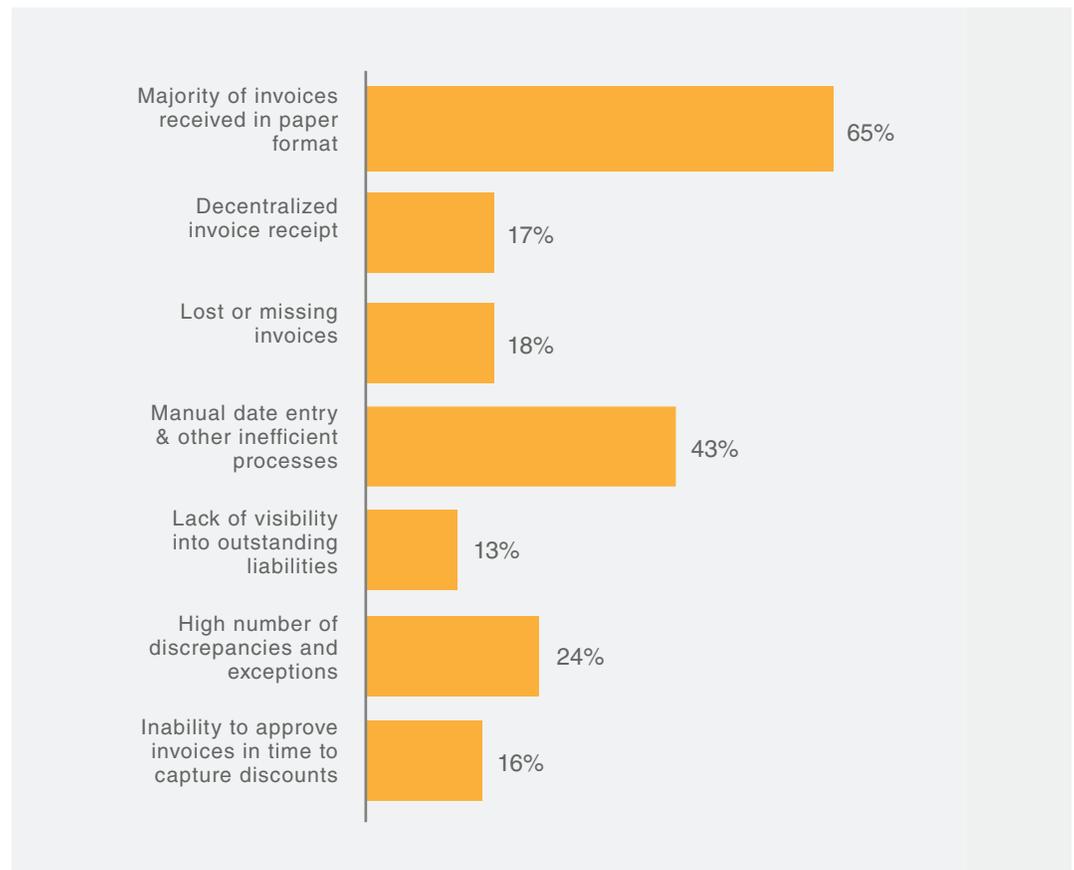
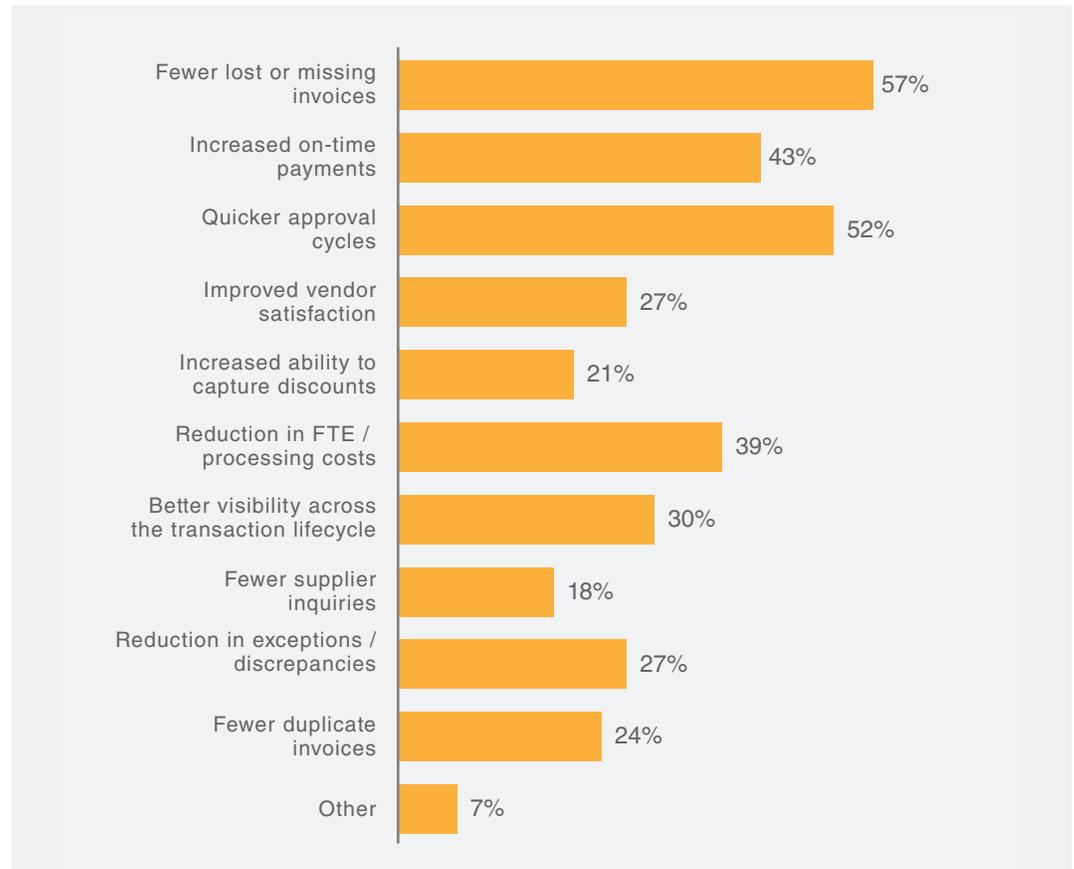


Figure 12

*Key Benefits Achieved
From an Electronic
Invoicing Solution*

*Fewer lost or missing
invoices ranks as the top
benefit achieved as a
result of eInvoicing*



transaction transparency. With visibility, you gain the ability to identify trends, and that predictability facilitates actionable insights that ensure you maintain control of your processes.

Barriers to Automation

Success, however, is predicated upon the ability to change the operating culture. Though large organizations have a reputation for being less nimble than smaller businesses, by far the biggest hurdle for an SME is nonetheless internal change management.

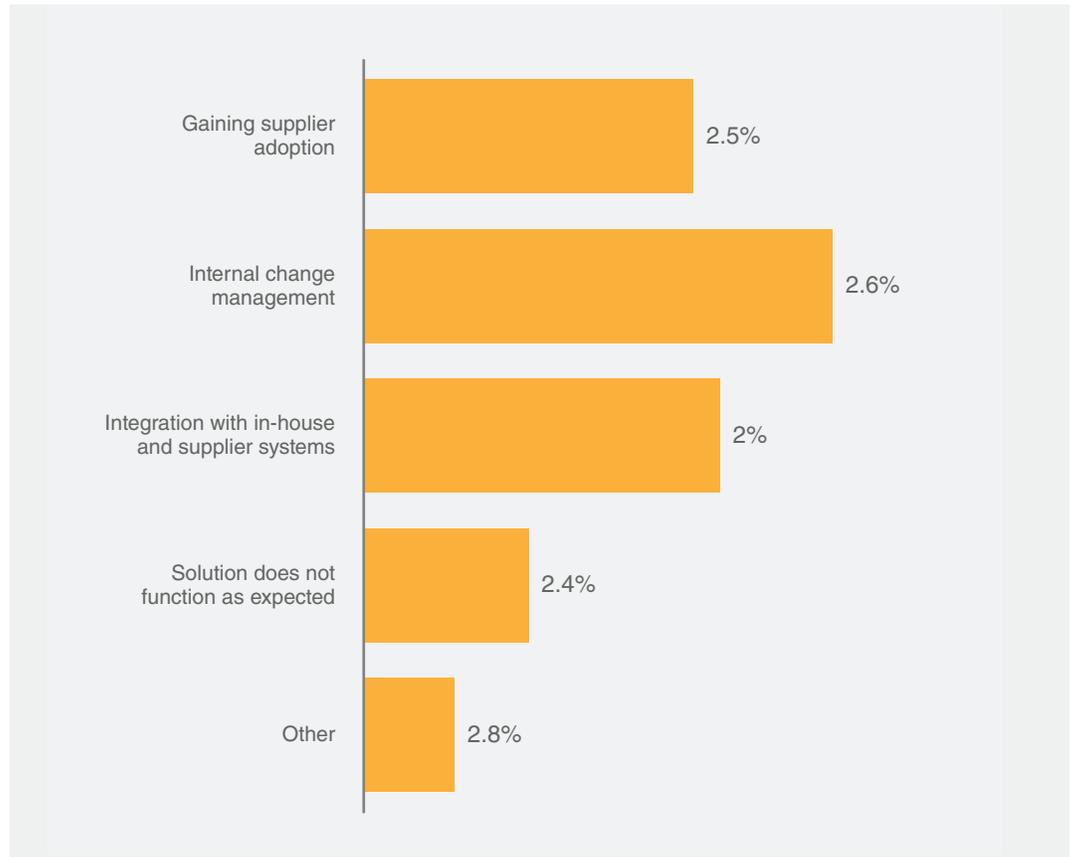
- » Business Practices - Internal resistance to change and the persistent insistence that current paper-based processes work, even though they are not the most efficient, mean that solution providers and change champions must clearly identify the tangible benefits of automation and communicate them effectively.
- » Technical Challenges - Once a formidable obstacle, the rise of Software-as-a-Service (SaaS) and Cloud computing has been a real game changer. Most SaaS applications on the market today are designed to integrate easily with minimal IT resource commitment.

- » Supplier Resistance - Hosted solutions put eInvoicing and electronic payments within reach of even the smallest companies. Improved supplier portals, supplier onboarding initiatives, and an increased emphasis on win-win functionality – such as accelerated payment, free supplier analytics, and dynamic discount management – are winning over suppliers.

Figure 13

Biggest Challenges in Migrating From Paper to eInvoicing

The biggest hurdle for an SME is internal change management



The Time is Right

There has never been a better time for SME's to take advantage of the benefits derived from payables automation. A number of factors have converged to make AP automation a practical solution for the SME market.

- » The technology is proven – large enterprises have been benefiting from reliable automation tools that deliver a definable return on investment
- » Cost is no longer a barrier – with the technology maturing and competitive solutions entering the market, adopters are realizing shorter times to ROI
- » Outsourced services are available to augment the SME that has limited resources – you don't have to do it all on your own now that the solution providers can help you fill your resource gaps in a number of areas from remote scanning to supplier enrollment
- » Automation is easily accessible – Most of the solutions offered to the SME market are hosted (e.g. SaaS) and operate in a cloud environment so that you don't need sophisticated IT resources to implement and maintain your automation tools
- » A variety of solution types are available – There are a lot of components to AP automation, and there are a host of vendors with solutions that address the different subsets thereof (e.g. financial service firms providing e-payments and P-cards, software vendors delivering imaging and workflow, and networks providing portals for electronic data exchange)
- » Mobile could be a game changer – SME's are expected to adopt mobile apps faster than larger firms and some pundits are claiming mobile accessibility will be bigger than the Internet
- » Solutions are configurable, scalable and portable – Growing organizations benefit when the automation tools they employ have an extended lifespan. Payables automation tools have been built with large enterprises in mind. They are feature rich, which allow a small or medium size company to grow into the solution. They don't have to start out utilizing everything at once, and can turn on certain functions as they are needed. This makes these solutions very scalable from a SME perspective. They are also for the most part portable, so if your organization moves from one ERP system to another, you can continue to work from the same automated payable platform by simply integrating it with the new system of record.

In the final analysis, all the necessary factors are present for increased adoption of payables automation technologies by SME's. On the one hand, SME's need to move away from inefficient paper processes, while on the other the tools to do so are not only readily available, but also economically feasible. The time indeed is right for SME's to explore their options and develop a technology migration roadmap.

The Different Flavors of Payables Automation

All AP automation solutions share the common goal of improving process management. Not every solution follows the same approach; however, or provides similar functionality at each step of the cycle. Accounts payable professionals should understand the different forms that invoice automation solutions can assume in order to decide which methods would work best in their environment.

Back-End Document Capture and Archival

The simplest form of invoice automation uses scanning technologies for back-end imaging and archival. Operators batch and scan paper documents at the end of the invoice receipt-to-pay process. AP staff then manually index the invoices after which the document images are stored in an electronic repository for retrieval. While this eliminates physical storage requirements, facilitates document retrieval for discrepancy resolution and audits, and improves responsiveness to supplier inquiries, the invoice approval process continues to follow its current manual and paper-intensive course. Since scanning is done after the fact this storage and retrieval solution is seldom used anymore because it fails to yield any improvement or efficiency in workflow.

Front-End Document and Data Capture

When employing an imaging solution at the front end of the invoice processing cycle, invoices are scanned remotely or at a central processing facility upon receipt. Once scanned and images enhanced to optimize recognition, data is extracted from the documents using automated image recognition technologies. Front-end document and data capture represents a quantum leap over back-end imaging by facilitating improvements to the invoice receipt-to-pay cycle, especially workflow automation.

Validation rules ensure that the data extracted is accurate, and many companies now opt to automatically pay invoices that meet all validation rules, freeing AP staff to focus on exceptions. Advanced systems put the onus of exception and discrepancy correction back on suppliers, facilitating the evolution of AP departments into profit centers focused on spend analytics and working capital management.

Front-End Capture with Matching and Workflow

In a more advanced form, invoice automation solutions combine front-end document and data capture with matching and workflow capabilities to streamline and automate invoice receipt and approval processing. Workflow-enabled invoice automation solutions automate more of the invoice receipt- to-pay cycle than

stand-alone document and data capture solutions. Workflow solutions enable AP departments to define how different types of invoices are processed. PO-based invoices can be automatically matched against the purchase order and receipt documents, while non-PO invoices can be routed to the people who must approve them. All tasks are routed based on pre-defined business rules and user roles with access rights set to match the organization's existing approval hierarchy. Approvers are typically notified via email when invoices require their approval. By clicking on the hyperlink contained in the email messages and logging onto the system they can view, code and approve the invoices online. Most solutions available today come bundled with reminders, out-of-office delegation rules and escalation procedures to ensure invoices are processed in a timely manner. They also deliver auditing, reporting and management benefits that document and data capture solutions alone cannot provide.

Automated Data Extraction Tools

Tools and technologies that facilitate the extraction of information from scanned invoice images have had an interesting life cycle, starting from template-based optical character recognition (OCR) to free-form recognition and more recently, intelligent document recognition (IDR). IDR systems enable end users to extract content from invoices without the system having to learn the layout of the invoice and without requiring the coding of rules or design form templates. Embedded fuzzy search methods improve the extraction results by using other known data sources to automatically validate the information before exporting it to the ERP and document management systems. Consequently, more invoices can be processed straight through from scan to post in the least amount of time and with a minimal amount of manual intervention. Fuzzy logic can also make the IDR solution language-agnostic, allowing global organizations to process high volumes of invoices in multiple languages.

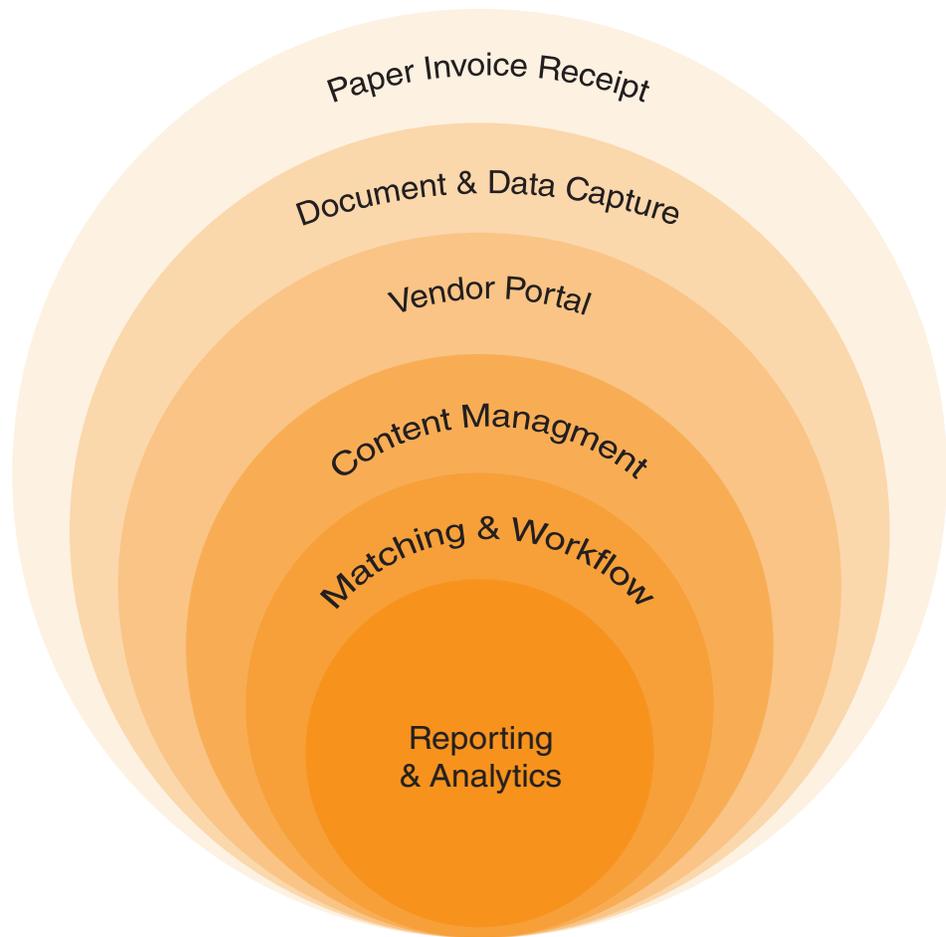
Combining Electronic Invoicing with Imaging and Workflow

The most sophisticated invoice automation solutions combine front-end document imaging and data capture with electronic invoicing and automated workflow. This enables organizations to process all the invoices - irrespective of whether they are submitted in paper or electronic format - through a single, common process. Under this scenario, suppliers are transitioned from paper to electronic invoice submission, usually through a stand-alone portal or a shared supplier network. Most solutions offer suppliers multiple options when it comes to submitting electronic invoices - direct integration with ERP and billing applications to transmit invoices in a hands-free manner without manual intervention, flipping purchase orders into invoices and web forms and templates that can be used to generate electronic invoices. Once invoices have been submitted, they can be subjected to a range of validation criteria based on buyer-defined rules. Invoices that do not meet any of the specified criteria are flagged as exceptions and suppliers are asked to correct them while clean invoices are then forwarded for further

processing. For suppliers that continue to send paper invoices, organizations can use front-end imaging and data capture to extract information from the invoices. After data extraction, the converted invoices are processed using the same matching and workflow rules as the electronic invoices.

Also gaining popularity is the outsourcing of the scanning and data capture function that takes on the responsibility of receiving invoices, scanning them and extracting the requisite data.

Figure 14
Invoice Automation
Universe



T&E Management

Organizations of all sizes can take advantage of the benefits of automating their Travel and Expense (T&E) processes. Automation provides complete end-to-end control of report submission, approval, reimbursement, reporting with data analysis and integration into back end accounting systems. Having this integration provides more visibility into spend with accurate accounting and detailed reporting for every single transaction and expense category. When organizations have this information at their disposal, they are equipped to determine exactly what areas in their travel and expense spend are excessive and can put automated controls in place to reduce runaway cost. The T&E automation space handles corporate

card integration as a standard feature. Card statements are integrated into today's T&E systems granting complete visibility into spend. Not only can expense reports be filed quickly when transactions are readily available, but merchant details accompanying each transaction can make tracking and reporting easier. Statements can be recalled instantaneously and analyzed for company violations or excessive spending.

Electronic Payments

Electronic payments have seen remarkable changes in the past decade with the creation of new alternatives to paper checks. Recent innovations include virtual or "ghost" credit cards, Single-Use Accounts, Buyer Initiated Payments, ACH funds transfer, supplier-friendly web portals and collaborative networks. Once a legitimate concern, compatibility issues have largely been relegated to the status of urban legends. Most ePayment solutions on the market today integrate seamlessly and cost-effectively with major ERP, AP, and Supply Chain systems. As more suppliers embrace ePay via ACH, there has been an increasing concern about the loss of important detail inherent in traditional ACH transactions. The recent emergence of payment and remittance advice consolidation alleviates this issue. Buyer initiated payments offer buyers and suppliers a fast track to electronic payments, without any significant IT burden. None of the above electronic payment types are mutually exclusive from one another or from paper checks. Depending on an organization's level of innovation, technological savvy and diversity of supplier base it can use a combination of the different payment types to satisfy its unique financial and business requirements.

Commercial Cards

Commercial cards are unique as they not only support the procurement function to purchase goods at the point of sale, and in many cases without paper invoices, but also permit accounts payable professionals to automate the settlement process. They have evolved into several types, including corporate purchasing cards, travel and entertainment cards, and fleet cards that target specific indirect spend categories, as well as one/multi-card systems that target multiple indirect spend categories (e.g. virtual or "ghost" credit cards, Single-Use Accounts, Buyer Initiated Payments). P-card programs are attractive because of the automation and process efficiency they bring, especially to the purchase of small items, where it is difficult to justify the high overhead of using requisitions, purchase orders, approvals, matching and settlement by check through the AP process. Increasingly, p-card programs are also being touted for the rebates that are provided by the issuer based on how much is spent on the p-card.

E-Procurement

Electronic procurement solutions streamline the purchasing process by enabling organizations to connect to vendor catalogs, generate requisitions, use

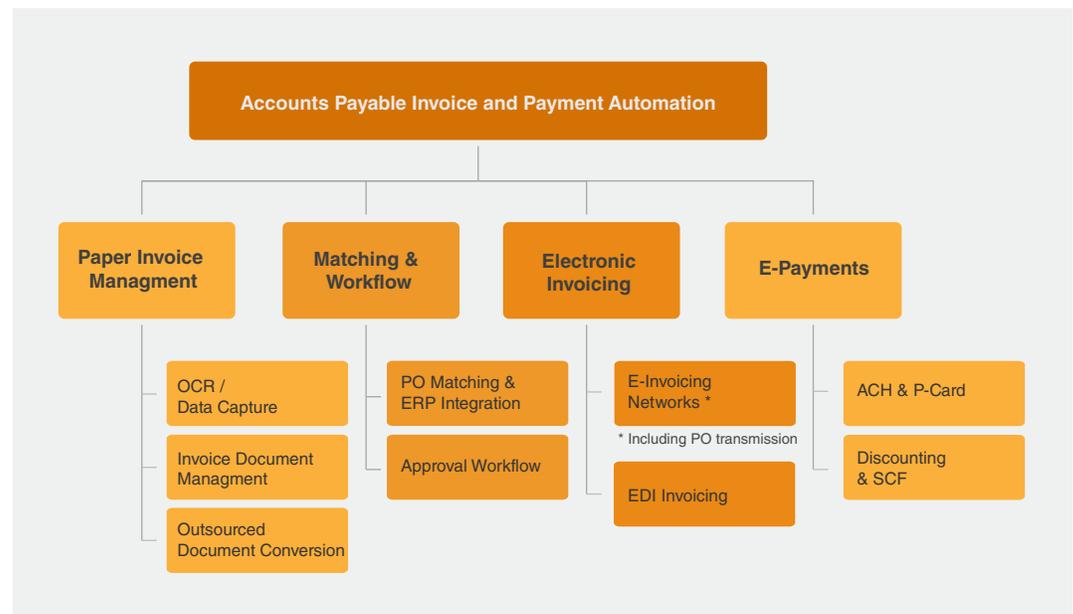
sophisticated workflow tools for approval processing and deliver purchase orders to suppliers electronically. Although the adoption of automation currently remains skewed toward large corporations, many mid-sized and smaller companies are also making great strides towards less paper, even paperless environments. These aggressive technology adopters have learned that in many cases automation diminishes the procure-to-pay cycle time from weeks to just days and delivers a rapid return on investment. By automating each stage of the procure-to-pay cycle, from electronic procurement to programmed exception handling and matching along with enhanced dispute management and approval workflow, adopters can not only achieve productivity gains and cost reductions, but also obtain traceable Sarbanes-Oxley audit trails. There are six components within the e-procurement universe: purchase requisition, requisition approval, workflow management, purchase order delivery, receiving and reconciliation, and reporting and analysis.

Key Components of Automated Payables Processes

Once an invoice or other payables data is captured electronically, the question to ask is: Does this invoice need to be approved? The ability to derive an automated answer by using business rules, which in turn trigger appropriate workflows, is the centerpiece of an automated AP environment. If the answer to the question is no, the system will move the invoice into the payment process. If the answer is yes, the system will route it to the approving party along with any necessary decision support documents and information. Business rules, flexible workflow and transactional transparency are essential.

Figure 15

Major Components of Payables Automation



On a basic level, we have identified 16 areas that impact automated AP processing. They are offered here to provide you with a checklist for evaluating both your needs as well as the functional capabilities of any solutions you consider. They are:

- » Invoice Submission – The system should facilitate the exchange of invoices between buyers and suppliers by supporting several methods of supplier submitted invoicing including PO flips, blank e-forms, standard templates and direct integration (Electronic Data Interchange – EDI) with a supplier’s ERP system.
- » Document Scanning – Having all invoices sent to a single location for scanning is preferable, but not always practical. In decentralized organizations the best practice is to receive paper invoices in regional scanning centers and then scan to one central repository.
- » Compliant and Secure Storage – The ability to capture and then maintain

both structured and unstructured data must be accomplished within a secure environment that is not only compliant with all relevant regulatory and industry standards, but also extends to the integrated process.

- » Invoice Recognition – It is very important to be able to capture line items and not just header data. Without line item details automated systems must forego the use of advanced matching and business rules to decipher apparent exceptions. The use of free form ICR or IDR can provide an added level of automation compared to a template driven OCR process.
- » Invoice Validation – The system must check every invoice for duplicity and mathematical integrity. In a portal environment, checking invoices against a set of buyer-defined criteria and notifying suppliers to correct any errors before the invoice is accepted and routed provides an additional layer of validation.
- » Invoice Matching – This involves matching invoices with purchases, goods receipt documents and/or contracts based on criteria configured in the system. The system should also route any match exceptions for review and resolution.
- » Workflow Configuration – Administrators need the ability to configure and change the business rules that determine how invoices will be routed to appropriate users for review and approval.
- » Alerts and Notifications – The system should notify approvers of invoices pending their review and escalating invoices to managers if no action is taken within a specified period of time.
- » Payment Processing – The steps that buyers take to initiate, post and execute payment, including preparation, processing, and submission of the payment file to the financial institution need to be seamless.
- » ERP Integration – Besides the exchange of transactional data between the invoice automation solution and the ERP, this stage also includes integration with and posting of the payments to buyers' GL and accounting systems.
- » Remittance Management – Sending the remittance information to suppliers via the portal in a format of the suppliers' choice is critical so that they can easily transfer the remittance advices into their receivables systems.
- » Travel & Expense Receipts – Paper receipt capture, either scanned or via a mail service, and matching those items to submitted expense reports or credit card downloads (in addition to providing confirmation to the employee), must be integrated with workflow providing approval, exception/ discrepancy handling and delivery to AP.
- » Card Management – The ability to capture complete details on all card transactions is the necessary first step in order to support workflow driven cost allocation and expense reporting activities as well as monitor usage compliance.

- » Contract Management – Leading edge firms are implementing automated contract management capabilities (typically for handling non-PO invoices related to leases, utilities and other recurring bills) to further reduce manual processing.
- » Mobile Apps – Delivering tasks and supporting documents to a mobile device facilitates approval by executives who travel regularly. Mobile apps are in the early stage of development and deployment but are expected to increase significantly in popularity.
- » Business Intelligence – There is a wealth of information gleaned from the P2P process, which can be used not only to comply with regulatory requirements but also to provide valuable business intelligence for strategic spend analysis.

Chrome River

Chrome River’s proficiency in the Expense Management industry is derived from founders with over 25 years’ experience in developing global financial systems, combined with the latest available technologies. Clients span all size organizations and include legal and professional services, education, nonprofit, professional sports, technology, pharmaceutical, manufacturing, and global companies that collectively process more than 5 million transactions per year. Currently, Chrome River is focusing on mid-market organizations with approximately 100 – 5,000 employees. With a loyal client base of over 150 customers, Chrome River continues to change the way invoices and expense reports are processed by offering a remarkably intuitive and efficient user experience that is also able to address the most daunting policies and business rules. This balance between satisfied users and management compliance, control and visibility uniquely defines Chrome River.

Founded	2007
Headquarters	Los Angeles, CA
Other Locations	Texas, Colorado, Wisconsin, Georgia, Virginia, New York, New Jersey, London
Number of Employees	60
Number of Customers	150+
Number of End Users	120,000+
Key Clients	Paul Hastings, Haynes and Boone, FTI Consulting, U.S. Soccer Federation, Edison Learning, Canaccord Genuity
Target Verticals	Legal, Professional Services, Financial Services, Technology, Pharmaceuticals, Manufacturing, Non-Profit, Athletics, Education
W2Partners / Resellers	GetThere, FROSCHE Travel, BMO Diners
Transactions Processed Annually	5+ million
Solution Names	Chrome River EXPENSE, Chrome River INVOICE, Chrome River AUDIT, Chrome River ANALYTICS
Year Introduced	2008

Solution Overview

Chrome River’s unique solution is based on a combination of innovative technologies and two and a half decades of software design and development experience. The solution offers an intuitive user interface, highly configurable

business rules engine and exceptional analytics and reporting. Chrome River INVOICE is delivered as a fully configured system that is a ready-to-go solution for its customers. Chrome River is an excellent fit for the SME marketplace because the solution doesn't require an ERP platform to manage AP automation needs, but rather provides a tailored solution that is easy to use. The company has found that mid-market clients are more concerned with intuitive ease of use, flexible configurability, and value rather than a "black box" ERP solution. For those that are currently tracking their purchase orders and invoices in Excel, Chrome River INVOICE is the perfect replacement to not only track those purchase orders, but also to improve the invoice intake, allocation, approval and vouchering process.

The solution is offered as a software as a service (SaaS) platform and is accessible via any web browser with support for mobile, tablet and desktop applications. The solution has been designed such that customers are always working off the latest release because updates are performed by Chrome River in a manner that results in virtually no service disruption to end users. While Chrome River remains focused on delivering core competencies to clients, the company continues to expand their offerings with new planned functionalities that include Purchase Request and PO capabilities, eInvoicing, expanded mobile capabilities and deeper travel integration.

Pricing and Implementation

A Chrome River implementation averages 60 – 90 days. Implementation timing is most affected by a client's scheduling needs, data-integration, workflow and compliance rule testing. Because Chrome Rivers' technology is extremely flexible but contains a powerful rules engine that permits easy-to-configure customer options, the need for software code-based modifications is drastically reduced and therefore accelerates implementation timelines. The Chrome River fee structure is comprised of a low, fixed-price setup charge and a simple monthly subscription fee. This can be based on a transactional basis or as an unlimited usage plan for a fixed price.

During implementation, a dedicated Project Manager is assigned to each client for assistance up to and including a pilot phase during which the client rolls out the solution to a limited number of users. The Project Manager is responsible for "train the trainer" services. After the pilot, the solution is rolled out to the rest of the organization and Chrome River support comes on board, offering both technical and functional assistance. Through a combination of web portal and telephone support, customers can get help 24/7. There is also a fully searchable online help and tutorials center that offers "how to" links as part of a user's home dashboard screen.

Invoice Receipt

The majority of Chrome River's clients receive paper-based invoices, necessitating the Chrome River INVOICE solution to support a variety of invoice capture tools.

These include fax, email, internally scanned and uploaded, or mailed/emailed to the Chrome River CAPTURE service where documents are prepped, images created, and invoice header data extracted and imported into Chrome River INVOICE. Electronic invoices can be submitted in a standardized format that contains either p-card data or transaction level data. Images in PDF format can also be received via fax or email. Chrome River uses free-form OCR coupled with human quality assurance processing to achieve a 99.5% level of accuracy. Any validation necessary is determined by a customer's compliance policies as defined by the solution's rules engine. Users are notified when validation does not occur at either the invoice header or line item level with either hard or soft error tracking.

Approval Workflow

One of the most attractive and powerful features of the Chrome River solution is its rules engine. Standard workflow rules can be used, but most customers configure their own based on any user, supplier, or invoice-level attribute; or as a combination of all three. Workflow paths can be serial or parallel and allow for group or individual assignments. All steps in the workflow are tracked for reporting purposes and each step is accomplished in conjunction with a corresponding email notification. Invoices can be approved directly via this email or online within the solution, or by means of a mobile app. Most customers facilitate disputes outside of Chrome River INVOICE, but reply using the reporting and analysis functionality of the solution to support their claims.

Payments, Discounting and Remittance Details

The Chrome River INVOICE solution is not used for payment processing; instead, Chrome River prefers to focus on the management and handling of invoices and then export approved invoice data directly into a client's financial ERP system. Working capital management is also managed by that ERP system with payment terms and associated discounts specified in Chrome River and then also exported to the ERP system. Payment data is then made via the ERP system and integrated back into Chrome River INVOICE for inquiry purposes. Dynamic discounting is not directly supported in the solution, but the Chrome River ANALYTICS module can support much of the data capture necessary for such functionality. Users are provided with the ability to specify additional remittance information within the Chrome River solution and can then also make that data available to the client's ERP system.

Vendor Portal

Vendors are supplied with multiple methods for submitting electronic invoice data and invoice images and can receive automatic updates as invoices flow through the system without the need to log into a vendor portal. Validation requirements are built into the solution to check for a variety of exceptions at the header or

line item level. These validation rules operate in conjunction with the workflow and notify clients of exceptions, who then use existing supplier communication protocols in resolving any issues with suppliers. The implementation services team routinely assists customers with supplier adoption strategies.

Content Management

All images, transaction and invoice metadata are stored indefinitely and can be accessed, printed, emailed, or reported on at any time. This data can be searched and retrieved in standard inquiry reports through either standard or customized search filters. The invoice images and associated data can also be made available to third-party systems such as external document management systems. In addition, the data can also be exported to any ERP application via the Export functionality contained within the Chrome River solution.

Reporting and Analytics

Chrome River ANALYTICS comes with a suite of highly-configurable, standard reports available for both the INVOICE and EXPENSE solutions. In addition, the ANALYTICS module includes a powerful, web-based report writer allowing each customer to create unique reporting scenarios specific to their organization. The ad-hoc tool allows users to generate and save customer search filters and report layouts. Reports can be viewed or downloaded as HTML, PDF or Excel formats.

Chrome River Case Study

Paul Hastings LLP

Paul Hastings LLP is ranked third in The American Lawyer's 2011 A-List of the 20 most successful law firms in America. A leading international law firm serving many of the world's top financial institutions and Fortune Global 500 companies from 19 offices across Asia, Europe, and the U.S. the firm has the global reach and capabilities to provide personalized service wherever their clients' needs take them.

The manual vendor invoice approval process at Paul Hastings was paper based, time consuming, and subject to manual errors. Because many invoices are billed back to clients, lost invoices and delayed approvals cost the firm money when clients will not reimburse them for invoices billed excessively late. From a financial management perspective, they needed to improve visibility to invoices received, make it easier for people to enter and approve invoices, and build their accounts payable policies (compliance, approvals, etc.) into an automated AP system.

The transformation actually began in 2008 when employees were moved to direct deposit for expenses followed by the automation of travel and expense management using Chrome River. That experience laid the foundation for the 2010 invoice automation initiative. Moving to an automated paperless solution also provided an opportunity to review and improve existing processes and roles designed around centralized AP functions located in Los Angeles.

Chrome River INVOICE integrates with Paul Hastings' enterprise financial management system from Thomson Reuters Elite and with their email infrastructure for notifications of invoice workflow. Implementing the new process and procedures within the automated solution was fairly straightforward. The biggest expected challenge was end user training on both the new application and the new policies and processes. Ultimately, the end users found the new application interface easy to use. In fact, there were more questions about the updated policies and procedures than the software.

Because Paul Hastings' invoice approval policy was implemented within the flexible Chrome River routing rules, routing is automated and controlled by those rules and email notifications. Approvals can be handled via email, and the AP staff can track in process and pending invoices. Approvals take place much faster now and AP has much more visibility into the process. Invoice images are now online and can be viewed at any time within the process making it easy for AP team members to monitor policy violations and compliance issues, delayed approvals, and analyze spend patterns at every location.

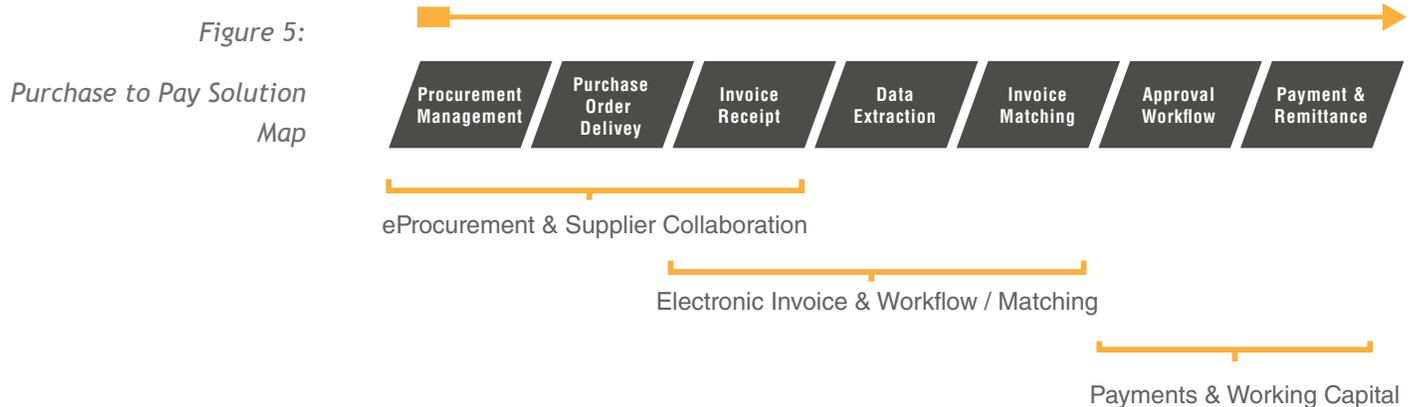
Another key advantage of Paul Hastings' new automation with Chrome River INVOICE is the ability to easily adjust compliance and approval policies. AP administrators can adjust dollar and approval thresholds quickly - in minutes if needed - and without any additional end user training. This is particularly important because of Paul Hastings' global exposure. In addition, W8 and W9 tracking has been facilitated and the AP team work loads can be easily monitored and effectively managed.

The elimination of duplicate entry and manual routing provided significant operational efficiencies. By eliminating the need for back-end scanning of invoices, they realized a savings of \$100,000 annually. Furthermore, since Chrome River INVOICE requires less manual effort, Paul Hastings has been able to redeploy much of their original AP staff and still have more time to analyze and improve AP processes as opposed to just executing against them. This has resulted in their AP direct costs dropping by over 35% since February 2008. More importantly, this AP team is now in complete control of their global process.

Where Should You Start?

Invoice automation plays a key role within the optimization of the Purchase-to-Pay (P2P) process; in particular the advantages provided by an electronic invoice environment and automated workflow matching. The goal is to create end-to-end automated processes, also referred to as straight through processing (STP). The promise of STP is that by eliminating human intervention efficiency will skyrocket and costs will drop precipitously.

The key then is to eliminate as much paper as possible. Converting paper invoices to electronic documents is primary, but also increasing the use of p-cards, driving suppliers to an invoice portal, electronically capturing T&E activity, and automating contract management can reduce the reliance on manual processing. With the volume of paper processing reduced, it is then possible to build out the automation within the P2P process.



Building a Holistic Migration Path

Transitioning to a fully automated AP environment, however, is not something that is done all at once. Enterprises interested in automating need to take a staged approach that involves:

- » Getting rid of paper
- » Matching a clean document sent (usually the purchase order) with a clean document received (typically an invoice or delivery receipt)
- » Then implementing e-procurement tools

AP processing provides the initial, easy to realize benefits of P2P automation. Beginning with purchasing, the front-end of the P2P process, does not deliver the requisite benefits to sustain continuous improvement. Attacking the paper invoice problem does. Being successful with invoice automation provides the impetus for then extending your touch-less process outwards in order to span both ends of the P2P continuum.

But payables automation should not be approached in a vacuum. Finding the right payment distribution – cards, buyer initiated payments, checks, ACH, EFT, Wire - will drive ROI. If you don't find the right balance, you will continue to facilitate inefficiencies in your AP processes.

What is required is a holistic approach to AP automation that begins with an understanding of your processes. Payments, automation and supply chain finance all need to be addressed in order to achieve maximum process transformation and savings.

Roughly speaking, you need to find a way to move at least 80 percent of payments to electronic and get rid of at least 80 percent of paper, if you hope to optimize your ROI and working capital. Rebates, ePayment savings, return on cash discounts and AP process savings (reduced paper costs) will not only justify your investment in AP automation, but will also delivering ongoing working capital benefits.

Selecting a Solution

While the benefits of automated payables are well documented, getting maximum benefit from automation initiative requires selecting a vendor, or vendors, that are a good fit for your organization. A thorough, critical analysis of the various technology solutions and the functionality they offer in light of your organization's business needs is essential. To help you with your due diligence, this section outlines the questions you should ask.

Questions to Ask a Solution Provider

In addition to the features of the solutions offered, it is critical to gauge each vendor's level of expertise and product scope. Along those lines you will want to find out if payables automation is a core application or a peripheral product. You also need to understand the growth plans and vision for the future of the vendors you evaluate. Asking the following questions will help you make an informed decision:

Company Overview

- » How long has the vendor been in business? When did they begin offering payables automation solutions?
- » How long have they been working in an SME environment?
- » How many customers does the company have and who are they? What is their experience in your industry? With other SME's?
- » How is the vendor funded? If it is a public company, read their prospectus.
- » How does the company intend to grow, and are there any mergers or acquisitions on the horizon?

Solution Scope

- » How does the solution integrate with your ERP? What is the associated level of certification for the solution?
- » Is there an SME version of the solution? How does it differ from the vendor's standard solution?
- » If you are decentralized or working in a shared services environment, how does the vendor handle integration with multiple ERP solutions?
- » Does the solution provider partner with any other vendors to provide elements of their overall solution?
- » How does the solution integrate with your ERP and other financial systems to post approved transactions?
- » What security measures are incorporated in the solution?

- » Is the solution provider including any additional features and functionality in forthcoming versions of the solution?
- » How long is the average implementation? What are the main factors that define the length of your implementations?
- » What level of customer support is provided after implementation?

Solution Overview

- » How does the solution accept invoices and other transaction documents into the system? Does it provide for distributed capture?
- » How are paper documents converted to digital formats? How is scanning performed?
- » What invoice formats or data standards (EDIFACT, ANSI, XML) is the solution able to capture and process electronically?
- » What OCR, ICR or IDR functionality is available? Is it template based or free form? What accuracy rates are attained?
- » How is validation and indexing handled? Can the user configure the business rules for validation?
- » How does the solution handle storage and archival functions for captured images and data? What search and retrieval capabilities are offered?
- » What payables workflow features are available as part of the solution? Are automated escalation, reminder, alerts and back-up chain features included?
- » How does it route tasks to internal approvers and reviewers? What options do administrators have to control individual user access rights?
- » Does the solution have the flexibility to support the customer's existing organizational structure, role hierarchies, and business rules?
- » Does the solution deliver a shared supplier network or portal where suppliers can submit invoices? If so, how many suppliers are currently enrolled and active on the network and is there any concentration of suppliers to your industry?
- » How does the system notify suppliers of exceptions? Does it force them to correct any exceptions? How?
- » How are paper receipts submitted for expense reporting? What control is there from mail receipt to delivery to AP? Are paper receipts matched to credit card downloads?
- » Does the solution include a reporting module? How many standard reports are available? What reports are bundled with the solution? Can users generate custom reports and save the queries for later use?
- » Can data from the solution be downloaded into third-party reporting tools for further analysis?

- » What out-of-the-box payables-related metrics/KPI's does the solution provide?
- » Does the system provide comprehensive audit trails? What tools/features are available to facilitate Sarbanes-Oxley or other compliance regimens?

Final Thoughts

The AP automation landscape is constantly evolving. At the same time, this technology has reached maturity on a large enterprise level. As vendors begin to directly address the need of the SME marketplace, we believe the following factors will continue to shape the solutions sets offered. SME organizations contemplating a payables automation solution will need to take these factors into account:

The convergence of electronic invoicing and front-end imaging facilitates automated AP processing. Electronic invoicing solutions were explicitly designed to facilitate external buyer-supplier interactions, while imaging and workflow automation solutions evolved to meet organizations' internal needs around invoice receipt and management. Over the last several years, we have seen a convergence in this market with both types of providers partnering or developing functionality to offer comprehensive solutions covering both paper and electronic invoices and incorporating better options for invoice receipt, approval processing, and discrepancy resolution.

Organizations are increasingly seeking straight-through-processing solutions. Organizations are seeking to leverage their ERP systems so that the AP staff and approvers can focus on higher value tasks as opposed to entering data and reviewing invoices. Demand is increasing for solutions that facilitate STP by delivering strong functionality around automated invoice matching and automatic approval of "clean" invoices as well as strong functionality around approval workflow to manage exceptions and dispute resolution in a collaborative manner.

Advanced data capture will be a catalyst for adoption. Solutions that rely on template based OCR to find and extract data from invoices have experienced mixed success. OCR templates are sufficient for an AP department that receives invoices in just a handful of formats, but are inadequate for high volume operations or global organizations that see a myriad of formats every day. As a result, the application of OCR for data extraction has been limited in AP environments. However, recent strides in advanced data capture technologies such as ICR and IDR and the emergence of industrial strength solutions that can extract data accurately without having to rely on templates are the key drivers that are unlocking adoption of front-end imaging and data extraction solutions.

AP automation is impacting working capital management. Until recently, automation efforts in AP were focused on the operational benefits of technology. Increasingly, savvy finance managers are considering the strategic impact of AP automation on the financial supply chain and the working capital improvements it can deliver. Innovative solutions are emerging to meet organizations' strategic objectives by offering solutions that unlock significant value from the financial supply chain through advanced features like vendor self-service, supplier onboarding and dynamic settlement.

Software-as-a-Service solutions will increasingly address SME needs. Having provided comprehensive solutions for large enterprises, it becomes much easier

for software developers who have adopted a SaaS platform to deliver a value proposition that resonates with the SME market. In most cases a complete feature set is available to the SME, though not all functionality will be used. Some solutions are being offered as stripped-down versions of the enterprise package in order to give SME clients the tools they need most, but the capability to add additional modules or unlock additional functions remains. The bottom line for an SME is access to the features they need at a price point that delivers a compelling ROI.

Multiple solution models will co-exist. There is no single model for an AP automation solution for SME users. There is considerable variability in terms of solution focus. Some solutions address payments, cards, travel and expense, invoice automation and more. Some vendors focus tightly on specific aspects of the invoice receipt-to-pay cycle, while others strive to provide AP automation functionality as part of a larger procure-to-pay offering. Industry consolidation notwithstanding, this diversity will continue.

About PayStream Advisors, Inc.

PayStream Advisors is a technology research and consulting firm that improves the way companies plan, evaluate, and select emerging technologies to achieve their business objectives. PayStream Advisors assists clients in sorting through the growing complexities of IT applications related to business process automation with the goal of making objective, analytical, and actionable recommendations. Wherever business process automation technology is an issue, PayStream Advisors is there to help. For more information, call (704) 523-7357 or visit us on the Web at www.paystreamadvisors.com.

About the Lead Analyst

An industry analyst and receivables management thought leader, David Schmidt has served as a senior analyst with PayStream Advisors since 2005. Prior to that he spent over 25 years working in corporate finance and consulting. David is co-author of the seminal text on automating collections, "Power Collecting: Automation for Effective Asset Management," (1998, John Wiley & Sons, NYC), and has published over 250 articles in a variety of trade and business publications primarily on receivables and payables management topics. An experienced workshop leader, he has also served as the lead analyst for numerous PayStream Advisors reports and white papers covering receivables automation, collection technologies, EIPP, workflow and imaging as well as payables, sales tax and freight bill automation.