

Invoice Automation for Small & Medium Enterprises (SME)

Electronic Invoicing Strategies for the Mid Market

Featuring Insights on...

Challenges with Current
State Processing

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in Invoice Automation

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2010

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Building a Case for Invoice Automation

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 (those with annual revenues under \$500 million) because of two major factors:

- 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.
- The availability of affordable, easy-to-implement and use technology solutions is driving a renewed interest in AP automation for these smaller organizations.

Challenges Inherent to Manual Processes

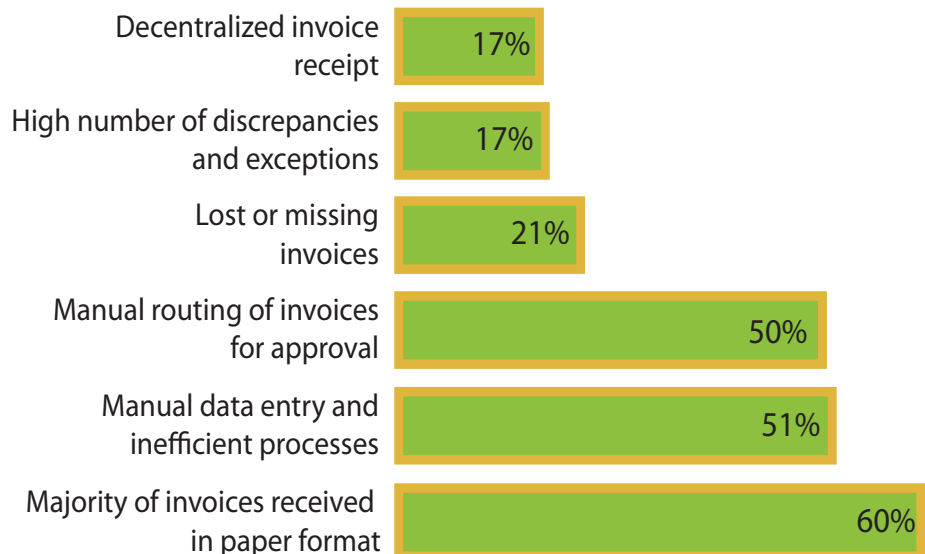
PayStream's Q1 2010 Invoice Automation Survey into the AP operations of more than 200 small and medium enterprises (SME) revealed that these organizations are plagued by the hassles associated with manual processes:

- **Paper-Based Processes:** Almost two-thirds (60 percent) of survey respondents stated that receiving a majority of their invoices in paper format was one of the main reasons they are unable to streamline their AP processes.
- **Manual Data Entry:** More than half the SME (51 percent) stated that one of the primary challenges they face in the AP process is manual data entry and the errors and inefficient processes that arise as a result of this.
- **Inability to Route Invoices:** Decentralized invoice receipt and lack of workflow tools have made it very difficult for 50 percent of organizations to route invoices and approve them in a timely manner, leading to late payments and missed discounts.

Figure 1

CHALLENGES IN THE INVOICE MANAGEMENT PROCESS

An over-reliance on people and paper-based processes emerged as the biggest problem plaguing AP departments.



- **High Processing Costs:** Our research shows that paper invoice receipt and manual routing and approval of documents adds days to the processing cycle and dollars to the processing costs, which smaller organizations can ill afford.

Factors Driving Interest in Automation

The results of the Invoice Automation survey and our research leave no doubt that paper invoices are the enemy of efficiency in the accounts payable department. The range of problems faced by AP professionals in their day-to-day operations indicates that there is tremendous potential for improvement by automating the invoice management process - namely invoice receipt, matching and approval workflow.

While numerous AP automation options have been available for many years, SME are just now starting to dip their toes in the automation waters. What factors are driving their interest in automating AP operations? Why does it make sense to automate now?

A paradigm shift is clearly underway that is shaking manual and paper-based processes. Financially savvy SME 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 vendor relations and working capital improvements.

- SME that were initially skeptical about AP automation are learning from the experiences of their larger counterparts and now see the tremendous potential of automating AP operations.
- An interest in transforming the accounts payable department from a cost center to a profit center is driving organizations to seek out innovative means to achieve this objective.
- A competitive business environment is prompting organizations, especially small and medium-sized ones, to focus on reducing processing costs and increasing efficiencies associated with invoices and employee expenses.
- Streamlining the AP process has become extremely important in a tough economy where adequate cash flow and greater control over payables are critical in maintaining liquidity and sustaining business operations.
- An increased interest in early payment discount capture is driving smaller organizations to investigate tools and technologies that enable them to compress their invoice receipt-to-approval cycles.
- The evolution of on-demand and Software-as-a-Service (SaaS) delivery models has significantly lowered the upfront cost of implementing AP solutions and reduced the hassle of maintaining them.
- SaaS solutions that defer solutions costs over a longer period of time appeal to companies that find it easier to get budgetary approval for operating expenses over capital expenditures.
- 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 process.
- Availability of invoice and expense management capabilities from a common platform delivers a unified view into all non-payroll spend for organizations and allows them to leverage the same solution for both processes.

- Value added-services delivered by solution providers around supplier recruitment have enabled buyer organizations to bring suppliers onboard more quickly.

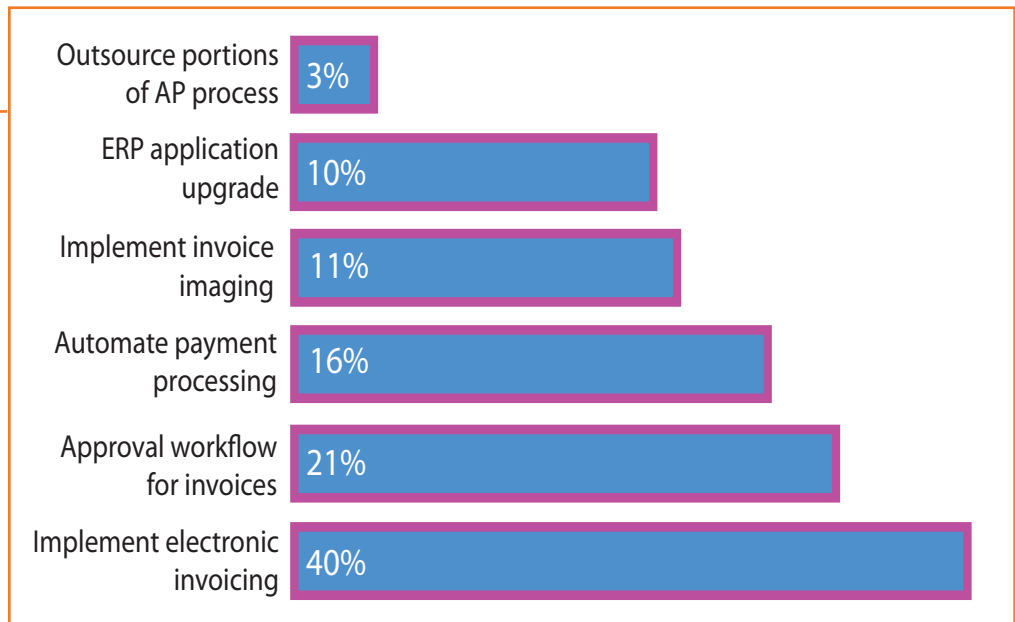
Top Automation Goals for 2010

Given these factors, it is not surprising that a number of organizations, even SME, are taking a hard look at invoice automation tools and technologies.

- **Implementing or increasing electronic invoicing** emerged as the most popular option for more than a third (40 percent) of SME stating that this was the top priority on their 2010 automation plan. This is a clear indication that organizations are no longer interested in merely finding a better way to handle paper; rather they are looking to remove paper from the source.
- **Automated approval workflow for invoices** was another popular option with just under a quarter (21 percent) of SME stating that they would focus their attention on this technology for the year. Our research also shows that automated workflow tools go hand in hand with electronic invoicing. Unless there is a mechanism to process invoices after they are received, elnvoicing delivers minimal benefits.

Figure 2
TOP FINANCIAL AUTOMATION GOALS FOR 2010

Implementing or increasing electronic invoicing emerged as the top priority for this year.



Buyer Benefits of AP Automation

Before implementing any technology, organizations need to understand what the ROI is and where the savings would come from. While benefits vary with the type of solution implemented and functionality being used, here are some of the common benefits of AP automation solutions to buying organizations, based on survey results of PayStream’s “Invoice Automation Adoption Survey 2010”:

- The biggest benefit of workflow is **quicker approval cycles** for almost two-thirds (63 percent) of companies.
- Forty six percent of participant organizations stated that they have been able to significantly **reduce staff and processing costs**.

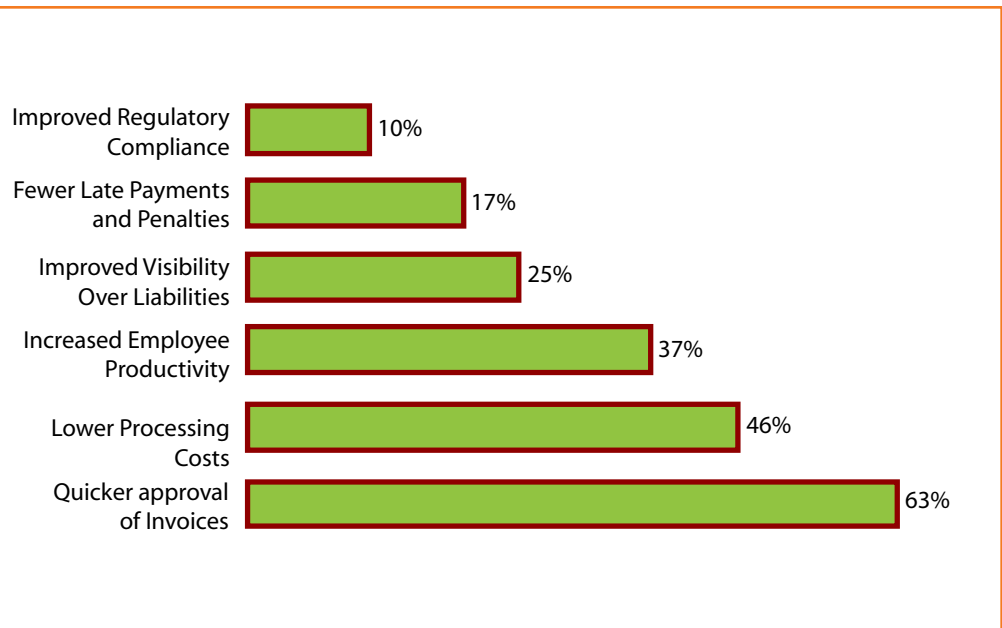
- Other significant benefits of workflow included **increase in employee productivity** and **improved visibility over liabilities**, experienced by 37 percent and 25 percent of respondents, respectively.

When invoices are routed electronically, they are immediately visible and actionable to all relevant parties, irrespective of where they are located geographically. Further, reminders and escalation procedures available as part of workflow solutions ensure that invoices are processed in a timely manner.

The relation between lower processing costs and automation bodes well for companies that are shying away from automation because they believe that current processes work or that there is no ROI to be achieved from automation. This should make the skeptics take a second look at the range of options available in the AP automation space today.

Figure 3
BENEFITS OF AP AUTOMATION SOLUTIONS

The benefits of AP automation are numerous including quicker approval cycles, lower processing costs and increased employee productivity.



Supplier Value Proposition of AP Automation

The buyer side of AP automation and its associated benefits receive a lot of attention. However, significant education is still required in understanding the value proposition to suppliers from adopting electronic invoice management solutions. Given that one of the biggest barriers to e-invoicing and payments is supplier adoption, rather the lack thereof, it is critical to look at automation from the supplier perspective. Suppliers who have adopted electronic invoicing have reaped a number of tangible benefits:

- **Increased Efficiencies:** Significant time is saved when employees do not have to print paper invoices and mail them to their customers, freeing up accounts receivable staff to focus on more value-added activities like collections and customer relations.
- **Lower Costs:** Reduction in labor, material and postage costs are common with all e-invoicing solutions. Our research reveals that suppliers who adopt electronic invoicing can slash their invoice management costs by more than 50 percent.

- **Error Reduction:** Validation rules configured into e-invoices solutions flag errors at the time of submission and prompt suppliers to correct them, reducing the number of exception invoices downstream.
- **Faster Settlement:** Electronic invoicing compresses the invoice processing and approval cycle on the buyer side. This, combined with electronic payments, will ensure that suppliers are paid on time, or even early in some cases.
- **Improved Visibility:** Suppliers have real-time access to invoices and payment status from a standard Web browser, reducing the number of calls and emails to AP Help Desks.
- **Better Cashflow Forecasting:** Automating invoice processing and payments reduces the uncertainties around payments. Consistency around payment timing means that suppliers have enhanced ability to perform cashflow forecasting.
- **No More Reprint Requests:** Electronic invoicing solutions drastically reduce the number of lost and missing invoices, which means that reprint requests from buyers will be virtually zero.
- **Quicker Dispute Resolution:** Suppliers now have the ability to view disputed invoices at any time and provide supporting/backup documentation, as needed, making dispute resolution a collaborative process as well as accelerating resolution.
- **Decrease Days Sales Outstanding:** Dynamic discounting and supply chain finance capabilities available as part of e-invoicing solutions allow suppliers to decrease days sales outstanding (DSO) without adversely affecting customer relations.
- **Access to Cheaper Capital:** Dynamic discounting delivers financing at more attractive rates to suppliers than factoring or asset based lending.

Growing Appeal of On-Demand Solutions

On-demand solutions that are hosted on a technology provider's server and maintained by the solution provider offer significant benefits over premise-based applications, making them an appealing option for the SME market. These advantages include:

- **Rapid Innovations**
Upgrading licensed solutions can be a hassle when you account for the IT and business resources that need to be involved and the system downtime. This is especially a big concern for small and medium organizations that have limited resources at their disposal. Also with in-house, installed solutions new solution functionality is only available when and if a company decides to go through the upgrade process. On the other hand, on-demand solutions deliver rapid innovations multiple times a year, all involving minimal, if any, effort on the client side. This means that organizations can immediately benefit from new features and functionality introduced by the solution provider.
- **Ease of Use**
For consumers, the Internet has changed the way users search for and buy products/services online – think Amazon, eBay, Google or iTunes. For businesses, though, the tools and software they use to manage their invoice and payment management process have sometimes been complicated and difficult to use. On-demand solutions are significantly changing the way businesses look at their finance processes by delivering intuitive and dynamic solution interfaces that are easy to use, without sacrificing robust functionality. Ease of use translates to increased internal and external user adoption.
- **System Integration**
Long lead times, high costs, complex planning sessions and deployment delays – some of these factors, inherent to licensed solutions, typically make smaller organizations balk at the thought of implementing any technology solution and integrating it to existing systems. On-demand solutions enable companies overcome these challenges by providing business administrators and IT personnel with easy-to-use and cost-effective tools for system integration. With on-demand solutions, organizations can quickly and easily automate the entire process by integrating directly with their ERP or accounts payable systems to easily receive invoices and match them to purchase orders or route them for approval.
- **Rapid Payback**
On-demand solutions, which typically operate on a subscription or pay-per-use model, are drastically reducing the total cost of ownership of any automation initiative. Traditional licensed software solutions involve heavy, upfront capital investments in hardware and software. These solutions are typically more expensive and time-consuming to maintain and upgrade. With on-demand systems, most of this expense goes away. Clients typically either pay an annual subscription for the service, or pay based on the volume of transactions they process through the solution, resulting in a rapid return on investment (ROI).

- **Lower Risk**

One of the reasons small and mid-size companies are reluctant to invest time and money in technology implementations is the perceived risk of the solution not functioning as anticipated. The ability to deploy quickly and easily and to scale as business needs dictate translates to a lower risk from technology implementation. Businesses are in control with on-demand solutions, without being tied to antiquated systems, high maintenance costs and multi-year contracts. The flexibility of signing up, altering and canceling service contracts as required means that even smaller companies that were initially skeptical about automation can now dip their toes into the water and streamline their AP processes.

Convergence of eInvoicing and Outsourcing

One of the major barriers hindering electronic invoicing initiatives is gaining supplier adoption. Persuading suppliers to change their processes to align with buyer's needs is a costly and time-consuming process, and success depends largely on the buyers' ability to present a compelling value proposition to suppliers. Large organizations are in a position to leverage their size and buying power to migrate suppliers from paper-based processes to electronic invoices. Small and medium enterprises, however, do not have this luxury and cannot dictate terms to their larger suppliers.

One option that these organizations can pursue to overcome challenge of supplier adoption is utilizing outsourcing services in conjunction with electronic invoicing initiatives. Under this scenario, suppliers that are reluctant to join an eInvoicing network, continue to send paper invoices. But instead of mailing them to the buyer's AP department, suppliers send these invoices to a processing center managed by the eInvoice solution provider. At these processing centers, the documents are scanned and data is extracted from the paper invoices and converted into an electronic format. Data from both the paper and electronic invoices is then available for processing through a single unified platform.

Benefits of Outsourcing Imaging and Data Capture

- Buying organizations receive all their invoices in an electronic format, from day one, without having to wait to onboard a critical mass of suppliers on the eInvoicing network.
- The AP department receives all invoices in a common format, irrespective of the channel of entry. The same robust validation rules that are applied to electronic invoices can be used to validate paper invoices as well.
- Buyer organizations can see a reduction in FTE and processing costs that were originally associated with imaging and data entry from paper invoices, an extremely valuable benefit for SMEs.
- Most third party outsourcing providers guarantee a 24 hour turnaround for invoice entry, which significantly compresses the invoice receipt-to-pay cycle, thereby allowing organizations to capture more early payment discounts.
- Fewer supplier inquiries into invoice and payment status, with increased supplier visibility into the process, translates to freeing up of AP resources that can now focus on value-added activities like spend management or supplier recruitment.
- Requires minimal changes to the supplier-side process; Suppliers only have to change the address to which they mail in the paper invoices.
- Electronic invoicing, combined with outsourced data capture, compresses the approval cycle, ensuring that suppliers are paid on time, or even early in some cases.

Integrating Invoice and Expense Management

Invoices and expense reports may appear to be completely different types of documents at first, but upon closer consideration it becomes apparent that they are not so different after all. Though invoices are submitted by external suppliers and expense reports are from internal employees, the invoice and expense management processes within the accounts payable department share a lot of commonalities - whether it is the way they are received into AP, the manner in which they are routed for review and approval or finally settled.

Defining Invoice and Expense Management Processes

Invoice management includes the following processes - invoice receipt from suppliers, sorting invoices based on various parameters, matching purchase order (PO)-based invoices, routing and approval of non PO-based invoices, exception management and discrepancy resolution.

Expense management includes both travel and entertainment (T&E) expenses and other employee business expenses like magazine subscriptions, office supplies, etc. Employee expense processing involves employees purchasing goods or services and then submitting reports and receipts detailing their expenses, managers reviewing and approving the expenses and the AP department coding and reimbursing the expenses. T&E expenses have additional steps such as travel booking, entertainment expenses, mileage, per diems etc.

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Common Challenges of Invoice and Expense Management

When the two processes share so many similarities, it is not surprising that manual and paper-based invoice and expense management are plagued by some of the same challenges, including:

- Lengthy processing and approval cycles;
- High cost of processing invoices or expense reports;
- Potential for unintentional waste and intentional fraud;
- Lack of real-time visibility across the transaction lifecycle;
- Manual data entry, further leading to errors and exceptions;
- Inability to enforce compliance with corporate policies;
- Adverse effect on employee/supplier relations and satisfaction;
- Limited ability to consolidate spend and negotiate discounts; and
- Penalties for late or missed payments to suppliers.

Benefits of Leveraging an Integrated Solution

The benefits of automating the invoice management or expense management process are crystal clear - lower processing costs, accelerated approval cycles, improved supplier/employee relations, to name just a few. But organizations,

particularly SME, can take the savings a step further by using a common, integrated solution to manage supplier invoices, T&E expenses and other employee expense claims. Benefits of integrating the automation of these processes include:

- Ability to leverage common workflows and business rules to process both invoices and expense reports.
- Ease of use for employees who now only have to learn to use a single system, whether it is for expenses or invoices.
- Fewer IT and support staff needed to manage one system, compared to multiple systems.
- Increased compliance with negotiated contracts and corporate policies, greatly reducing maverick/ad hoc spending.
- Ability to consolidate spend across the entire organization to negotiate bulk discounts/preferential pricing with suppliers.
- Unified view into all of an organization's non-payroll spend from a single platform in real-time.

Relationship between Automation and Processing Costs

PayStream's survey "T&E Expense Management Automation 2009" revealed that the average cost to process a single expense report was \$14.63. What was interesting to note was the relation between processing costs and the extent of T&E automation an organization had in place. It is obvious from Table 1 that automation drives down expense processing costs significantly.

The relationship between processing costs and technology was also validated

Table 1

BREAKDOWN OF EXPENSE REPORT PROCESSING COSTS BY LEVEL OF AUTOMATION

Type of Company/Level of T&E Automation	Average Processing Cost/Expense Report
Our process is entirely manual	\$28.21
We have some automation	\$7.42
We are fully automated	\$6.19

by PayStream's "Invoice Automation Survey 2010." According to the survey, the average cost to process an invoice (from receipt to approval) was \$13.58. However, innovative companies have been able to dramatically reduce costs through the diligent use of automation (See Table 2).

Table 2

BREAKDOWN OF INVOICE PROCESSING COSTS BY LEVEL OF AUTOMATION

Type of Company/Level of Invoice Automation	Average Processing Cost/Invoice
We have not implemented any technologies and have no plans to do so	\$22.75
We have implemented some technology but it is not used widely	\$13.70
We are innovators - we have implemented most of the AP automation technologies available	\$7.36

About the Sponsors

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 Analyst

As Research Director, Sush Koka manages PayStream Advisors' overall technology research effort. She writes research reports, leads client briefings, and participates in consulting engagements in the purchase-to-pay and order-to-cash functional areas. Her deep experience both as a market analyst and a consultant enables her to analyze trends in financial services automation, assess feasibility of products and drive research activities. Her areas of focus include invoice and payment management, travel and expense management and business process automation. She has extensively researched and written reports in the above areas and her work has also been published in trade magazines such as Supply & Demand Chain Executive, Business Finance and DOCUMENT magazine.

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