

Imaging and Workflow Automation

Using Today's Imaging Technology to Improve Business Processes

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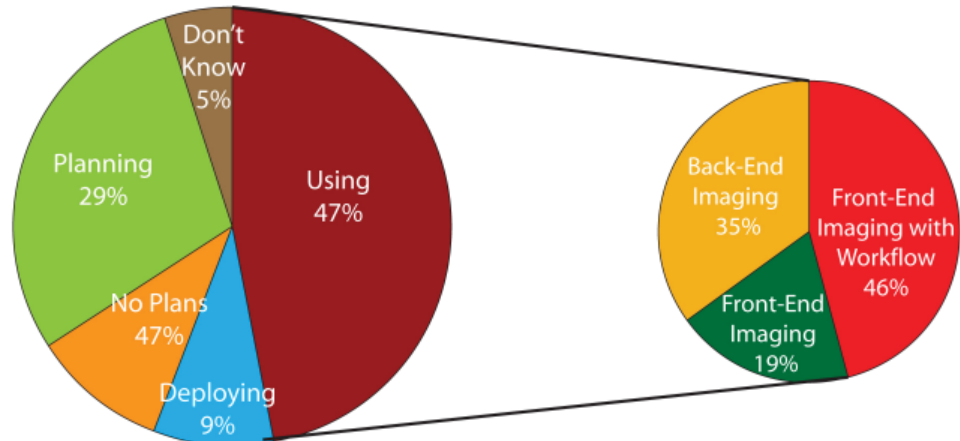
Introduction

The emphasis on corporate cost containment and productivity enhancement during the past decade has prompted accounts payable professionals to seek new ways to automate their paper based, labor-intensive processes. Furthermore, new compliance regimes have prompted a greater need to audit and mitigate the intrinsic risks associated with the payment process.

Figure 1

ADOPTION OF IWA SOLUTIONS

Almost half the respondents to PayStream's survey stated that they were using Imaging & Workflow Automation (IWA) solutions



Source: PayStream Advisors Financial Automation Survey

This report is designed for AP Managers, Controllers, Treasurers, and Financial Managers who are interested in:

- Exploring Imaging and Workflow Automation solutions for the reduction of paper- and people-based processes in the accounts payable areas of companies
- Understanding the business case for expanded use of imaging and workflow automation
- Taking the next step towards IWA adoption

This report is written for organizations that are actively exploring Imaging and Workflow Automation solutions. Beginning with an introduction to how IWA solutions work, it describes the most common forms that the solutions take, and highlights the benefits that they deliver. The vendor solution profiles are identically structured and provide specific information about individual vendors and the solutions they offer. The report will conclude with analytical insights that will help the reader compare and contrast vendors and their solutions.

This white paper provides an overview of the Imaging and Workflow Automation solutions available today. It will aid potential buyers in the AP space in their evaluation of AP solutions that reduce costs and improve performance.

Building a Case for Automation

Organizations today are swimming in paper, even as the futuristic aspirations of a paper-free workplace have proven more difficult than putting a man on the moon. Furthermore, with the passage of the Sarbanes-Oxley (SOX) Act of 2002, the profile of Accounts Payable departments is far higher. Today's emphasis on cost-containment, productivity enhancement, and risk-management has highlighted the limitations of traditional, paper-based methods of accounts payable and procurement processes.

Organizations are in the process of moving towards automating their accounts payable processes, capturing these productivity and visibility gains: (Table 1):

Table 1
THE BENEFITS
OF IMAGING AND
WORKFLOW
AUTOMATION

Back End Document Capture & Archival	Front-end Document & Data Capture	Front-end Capture & Workflow
Alleviates lost & misplaced invoices	Removes paper where it enters the organization	Streamlines & accelerates approval processing
Allows simultaneous access to invoice information	Allows image-enabled approval processing	Aids in Sarbanes-Oxley and other regulatory compliance initiatives
Simplifies discrepancy resolution, transaction research, audits & supplier inquiries	Accelerates invoices' entry into approval queues	Tightens overall control over approval processing
Provides secure electronic storage for invoices	Speeds data collection & entry into financial systems	Provides transaction-level visibility into invoice receipt-to-pay activities
Reduces storage costs	Reduces manual data entry & FTE requirements	Enhances prompt payment discount capture & reduces incidence of late fees

These factors greatly increase efficiency and lower costs in an AP department, concurrently maximizing compliance requirements with these tools:

- Project management tools that speed approval workflows while providing proper documentation and audit trails
- Capabilities that improve and standardize costly and/or superfluous business process
- Document and data retention and archival, efficiently meeting specific regulatory requirements

What is Imaging and Workflow Automation?

Imaging and Workflow Automation (IWA) solutions streamline the invoice receipt-to-pay cycle, enabling organizations to (1) convert paper invoices into digital images, (2) store them in a Web-enabled repository for rapid retrieval, and (3) extract data from them to enhance approval processing.

IWA solutions may also provide document and data capture and workflow, in order to create an end-to-end invoice management and approval platform that integrates with enterprise applications.

Figure 2 outlines the IWA Universe.

Figure 2

IWA Universe

IWAS solutions improve the invoice-receipt-to-pay cycle by streamlining how organizations receive, manage and approve invoices. Each of the solutions profiled in this report focuses on the IWA universe, addressing its components steps differently and with varying degrees of effectiveness.



The Components of an IWA Solution

Invoice Receipt Functionality:

- Receiving and data capture, manually or via automated sorting, or by front-end data keying.
- A Web-enabled interface that allows suppliers to upload invoices directly into the ERP or concurrent IWA system.

Document and Data Capture:

- Conversion of paper invoices and transaction-related documents into digital images and index data. Functionality may include scanning, image enhancement, indexing, validation, and data extraction based on bar-codes, OCR, or manual data entry.

Vendor Portal:

- Allows suppliers to submit invoices electronically
- Some vendor portals offer auto-validation of invoices to check for exceptions
- Portals also allow suppliers to perform Purchase Order flips (Auto-conversion of a PO into an invoice), attach and view documents from their own accounting systems, and self-service exception-resolution and approval-status

Content Storage and Management:

- Allows for the delivery, storage, management, and disposition of electronic documents and data.
- This may include Enterprise Content Management (ECM) or Business Process Management (BPM) capabilities for managing the transactional content across its entire lifecycle.

Workflow Management:

- Allows for the routing of tasks according to pre-defined business rules and based on individuals' roles and access rights.
- Workflow provides a tool to track and manage approval processing at the invoice and aggregate level.
- Common features include automatic notifications to users when specific actions are required, reminder messages, and escalation procedures based on approval hierarchies.

Reporting and Analysis:

- Analyze key invoice receipt-to-pay metrics
- Typical reporting and analysis tools include the generation of standard and ad hoc reports that detail those invoices pending approval, unpaid invoices past due, and average invoice processing time.

Benefits of a New Paradigm

Many innovative financial managers are now recognizing that accounts payable automation offers significant potential, not only generating bottom-line improvements, but also a greater ability to monitor and manage spend, strengthen working capital positions, and build stronger and more collaborative trading relationships.

Our research suggests that these forces have sharply increased organizations' interest in automation solutions, which streamline and optimize accounts payable operations to deliver both operational and strategic benefits.

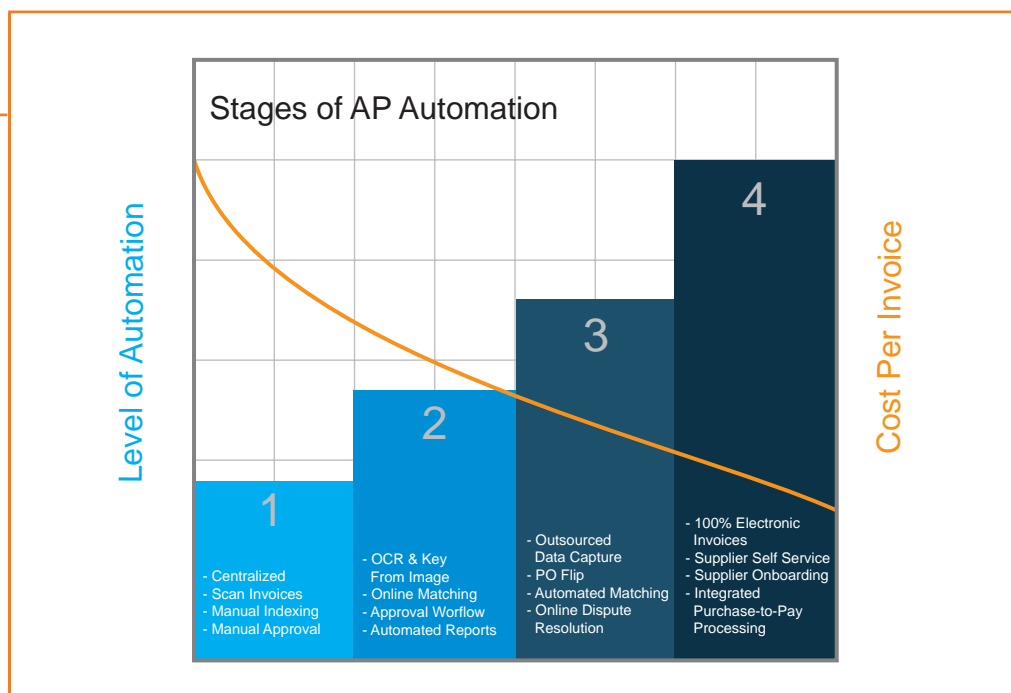
Increasingly, organizations are recognizing that the transition from manual and expensive paper-based processes to more efficient and cost-effective straight through processing can be achieved through multiple small steps rather than a "big bang" initiative. The first step toward this goal is the removal of paper from the invoice-receipt and approval process. There is little doubt that the market is moving in this direction as companies realize that, in order to achieve strategic goals – working capital improvement and spend management – they must first streamline their invoice processing to accelerate the approval and payment of invoices.

Until recently, automation efforts in the accounts payable area were solely focused on invoice and document management, and the operational benefits that this technology delivers. PayStream defines these as the first two stages of automation, wherein organizations are focused on centralizing their invoice management processes and leveraging document scanning to compress the time it takes for invoices to enter the approval workflow. However, this is only half the story. Figure 3 outlines the various stages of automation that an organization can experience as it adopts technology to increase process efficiency and control costs, especially as stages 3 and 4 are achieved.

Figure 3:

DIFFERENT STAGES OF AP AUTOMATION

Organizations are recognizing AP automation as an area offering tremendous potential for achieving tactical and strategic objectives.



Many companies are currently in the third stage of automation, wherein they are leveraging electronic functionality to receive invoices, as well as employing advanced OCR technologies to extract invoice information from paper invoices. Furthermore, these organizations are utilizing automated matching and approval and collaborative online dispute resolution functionalities.

Another trend is the outsourcing of certain low-value AP tasks such as document scanning, data extraction and data entry. This allows AP professionals to focus on more mission-critical tasks, such as invoice approval, dispute resolution and discount capture. Accounts payable business process outsourcers (BPOs) are not necessarily new, but they are now gaining popularity as organizations comprehend the benefits of leveraging the technology and process expertise of an outsourced service provider to perform non-core activities. Further, these outsourced solutions are just now reaching maturation with the advent of collaborative web-enabled technologies.

Finally, a few savvy organizations are moving into the fourth stage of automation, wherein they are eliminating paper to a significant extent by primarily receiving invoices via electronic means. Problematic supplier behavior has traditionally hampered adoption of IWA technologies, and automation vendors are delivering tremendous value in this field by offering aggressive supplier on-boarding and enablement services. Solution providers work closely with buyers to segment vendors and initiate campaigns—email, direct mail and telephone—that migrate vendors from paper to electronic invoice delivery.

These innovative buyer organizations also reduced the volume of invoices flowing through the approval process by taking advantage of straight-through-processing (STP) to manage clean invoices (invoices that do not have any errors or those that meet certain pre-determined criteria). This empowers organizations to direct valuable AP resources toward managing exceptions and accelerating dispute resolution.

While there is no doubt that a significant benefit that companies derive while they move from the first stage to the fourth stage of automation is lower processing costs, the greatest value is found in the strategic benefits that automation affords—namely, increased supply chain visibility, improved working capital requirements and better trading partner relationships.

Selecting a Solution

The key to selecting an IWA vendor is to find and select a platform that matches your needs. Here are a few things to consider:

Financial Automation Goals: There is a solution to meet every organization's need, but identifying the ideal solution requires a clear understanding of what it hopes to achieve through automation. Organizations that are slow to adopt financial automation technologies, but still want to take an incremental step forward, should consider adoption only backend imaging and archiving. On the other hand, organizations that are comfortable with technology and want to accelerate the pace of improvement in their invoice receipt-to-pay cycle should think about an application that delivers front-end imaging and workflow.

Adoption Readiness: Not every organization stands an equal chance of succeeding with automation. Differences in culture, financial resources, and human capital mean that certain organizations are more likely to succeed. Further, an organization still may find itself hobbled by a lack of senior management support or hemmed in by its prior technology investments. Individuals investigating IWA should determine how their organizations stack up in each of these areas. As a rule of thumb, an organization's overall use of financial technologies relative to its peers provide analysis of its its readiness to adopt automation solutions, especially in their more challenging end-to-end formulations.

Process Complexity: The higher the complexity of an accounts payable operation, the greater the payoff from automating the invoice receipt and approval process. Accounts payable professionals should consider the number of invoice formats they receive, as well as their overall invoice volume and the complexity of their average invoice. The structure of their accounts payable operation (i.e. decentralized vs. centralized) and the steps required to process, approve, and pay invoices are also critical and will have a direct bearing on their choice of a IWA platform.

Accounts Payable Department Size: Large organizations can focus on the process improvements and resulting ROI that an investment in electronic invoicing and payments technologies will deliver, regardless of the number of staff that are performing invoice and payment processing activities. However, small and mid-sized organizations do not always have that luxury. Small AP departments often face budgetary constraints that limit their solution choices. Small firms looking to automate invoice and payment processes must look quite carefully at vendors in order to select a platform that very specifically meet its needs.

Accounting Software Infrastructure: ERP and accounting systems can vary in levels of functionality around invoice and payment management. The market has developed robust and multi-faceted electronic invoicing solutions because of the lack of sophisticated invoicing and discounting capabilities offered by ERP and accounting applications. A major consideration for determining an organization's selection of a Web invoicing solution should be the process gaps or system weaknesses that are inherent to their AP or ERP platform currently in use.

Key Insights

PayStream Advisors predicts that the market for accounts payable or invoice automation solutions will grow rapidly over the next five years. Accounts payable departments' share a significant portion of the billion dollar imaging and workflow automation pie, that, while small today, will expand as AP departments seek to streamline and optimize their operations and adapt to changes of regulatory regimes.

PayStream Advisors also believes that the following factors will shape the evolution of the accounts payable solution market, and organizations contemplating an accounts payable or invoice automation solution will want to take them into account:

- **Advanced OCR will be a catalyst for adoption.**
Solutions that rely on template-based Optical Character Recognition (OCR) to extract data from invoices have experienced mixed success: While sufficient for AP departments that receive invoices in a just a handful of formats, OCR has historically proved inadequate for operations that see a myriad of formats every day. The application of invoice automation solutions to improve invoice management has suffered thanks to the past-failures of OCR technologies. However, recent strides in OCR, with the emergence of industrial-strength solutions that do not rely upon templates, will be a key driver of adoption.
- **Imaging & workflow solutions and 'Web invoicing' will cross pollinate.**
Imaging and workflow solutions have evolved to meet organizations' internal needs around invoice receipt and management. However, as the Internet expands into all corners of business communication, the distinction between internal and external processing is breaking down. This is already affecting the accounts payable automation solution market, thanks to the rise of Web invoicing solutions that provide functionality that is designed to facilitate buyer supplier collaboration. Ultimately, accounts payable departments will benefit as solutions incorporate advanced collaborative functionality for invoice receipt, approval processing, and discrepancy resolution, improving control and efficiency.
- **Front end solutions will prevail.**
Accounts payable or invoice automation solutions are beneficial in all of their forms. However, front end solutions preserve the benefits of back end imaging and archival while providing additional advantages in the form of lower costs, higher processing efficiency, and enhanced visibility and control. They can be used to replicate and accelerate existing work patterns or to design entirely new electronic processes. Organizations will continue to use accounts payable automation solutions in both a back and front end capacity, but the latter will eventually prevail.

- **Organizations will seek 'straight-through-processing'.**
As automation moves to the front-end of the accounts payable process, organizations will also seek to leverage "straight-through processing," so that AP staff and approvers can focus on more value-added tasks. Demand will increase for solutions that leverage this technology by delivering auto-matching and auto-approval of "clean" invoices, as well as approval workflow that manages exceptions and dispute resolution in a collaborative manner.
- **Impact of AP Automation on the financial supply chain.**
Until recently, automation efforts in the AP area were focused on invoice and payment management and the operational benefits that technology delivers. However, savvy finance executives are considering the more strategic impact of AP automation on the financial supply chain and the working capital improvements that automation delivers. Innovative and mature solutions that meet organizations' strategic objectives offer platforms that unlock significant dollars from the financial supply chain via advanced features such as vendor self-service, visibility and DPO maximization with collaborative payment approval, and dynamic settlement.
- **Multiple solution models will co-exist.**
There is not a single model for an accounts payable automation solution. Solutions are available in software form, as well as on an outsourced basis. Likewise, some vendors emphasise a modular "mix and match" approach while others concentrate on providing a single platform. There is also tremendous variability in terms of solution focus. Some vendors focus tightly on specific aspects of the invoice receipt to pay cycle, while others strive to provide accounts payable automation functionality as part of a larger ECM or BPM solution. Industry consolidation notwithstanding, research shows that this diversity will continue.

What Should You Do Now?

There is a strong business case for Imaging and Workflow Automation. The documented productivity and spend management benefits of automation technology offer a compelling reason for consideration, as well as a very tangible ROI for enterprises.

The March is ON:

PayStream Advisors' has determined that at least 57% of organizations have already implemented an imaging solution, though few have addressed the entire invoice-to-payment process.

With So Many Choices, Where Do We Start?

Our analysis of qualified solution providers revealed a sizeable pool of robust solutions. Our research indicates that, when considering an IWA solution, most technology buyers are not aware of all the technologies available. By the same token, they are not familiar with many of the solution providers that are addressing the AP automation market. As a result, opportunities are regularly missed, both in terms of process improvement and solution selection.

Don't Fall Too Far Behind:

Companies that rely on traditional accounts payable practices, burdened as they are by many inefficient, manual tasks, will find themselves at a competitive disadvantage to companies that have automated procurement, and can therefore better manage their invoice payment processes.

Leverage PayStream's Technology Insights Report:

PayStream's Technology Insight report on Imaging and Workflow Technologies will provide you with valuable insights to aid your investigation of IWA vendors and solutions.

What to Expect in the full report:

- Solution provider profiles - in-depth profiles of leading providers and the solutions they offer
- Selecting a solution - factors that impact buying decisions and simple steps to help you select the right partner
- Building a business case for Imaging and Workflow automation - key drivers and benefits of IWA
- The Imaging and Workflow universe - overview of functional components offered as part of an IWA solution
- Different Flavors of IWA - comparing different types of IWA solutions
- IWA best practices - learn from the innovators about optimizing IWA programs

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

Davis Kuykendall is a research analyst with PayStream Advisors, Inc, specializing in Accounts Payable automation technologies. In addition to working in the research end of AP technologies, Davis also participates in client engagements and technology strategic projects.

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