



Electronic Invoice Management

A Move to the Middle

Q1 2014

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Barriers to eInvoice Adoption

Building a Case for AP Automation

Usage of AP Automation

Factors Driving Interest in AP Automation

AP Solution Providers and Case Studies

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Executive Summary

As the electronic invoicing market becomes more saturated in large companies, the small and medium enterprise (SME) market, those with annual revenues under \$250 million, continue to open up. Over the past year, PayStream analysts witnessed an increase in electronic invoice (elinvoice) adoption among SME's, as well as an increase in workflow automation.

New and improved innovations in elinvoice functionality including Software-as-a-Service (SaaS), free supplier portals, dynamic discounting and mobile transactional capabilities are the driving forces behind the increase in adoption in the middle market. More SMEs are now reaping the benefits that the large early adopters did, including reduced processing costs, increased invoice approval cycle times, improved cash management, and increased visibility, to name a few.

In addition to more companies or (buyers) implementing elinvoicing, PayStream survey results reveal that elinvoice adoption has been of keen interest among suppliers. The number of suppliers that no longer submit paper invoices and have converted to elinvoicing has increased dramatically. Today more suppliers send more invoices to companies in electronic format that do not require data entry, resulting in a more efficient and cost saving invoice process. Solution providers are now catering to suppliers with aggressive supplier on-boarding programs and easy to use supplier portals. More elinvoicing providers are offering their services to suppliers at no-cost, in an effort to build their supplier networks and keep buyers and suppliers connected across the globe.

PayStream analysts have also identified the growing trend within the industry that elinvoicing is not an end in itself, but rather part of an overall process and a culture involving integrated accounting systems, workflow, communications and supplier management. With Purchase-to-Pay (P2P) and elinvoicing solutions combined, companies can have unparalleled visibility, control and compliance required to optimize procurement and Accounts Payable (AP).

In 2013, PayStream Advisors documented these trends in the Electronic Invoice Adoption and the Invoice and Workflow Automation Benchmarking reports. These benchmark reports were based on the responses of more than 300 AP and procurement professionals at U.S.-based enterprises. This report elaborates on those findings by putting them in a broader context.

PayStream Advisors has developed this Technology Insight report titled *Electronic Invoice Management: A Move to the Middle*, for organizations with an active interest in elinvoicing who would benefit from an in-depth analysis of recent trends and solutions, in addition to profiles and case studies of leading invoice solution providers.

Electronic Invoice Management is one of several reports available for download in PayStream Advisors [Research Vault](#).

Move to the Middle

It's been well over a decade of market excitement about the coming of the electronic future and we are now witnessing the long awaited migration of eInvoicing from the large early adopters into the fat middle market of the SMEs.

Until recently, 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 the SME market because of two major factors:

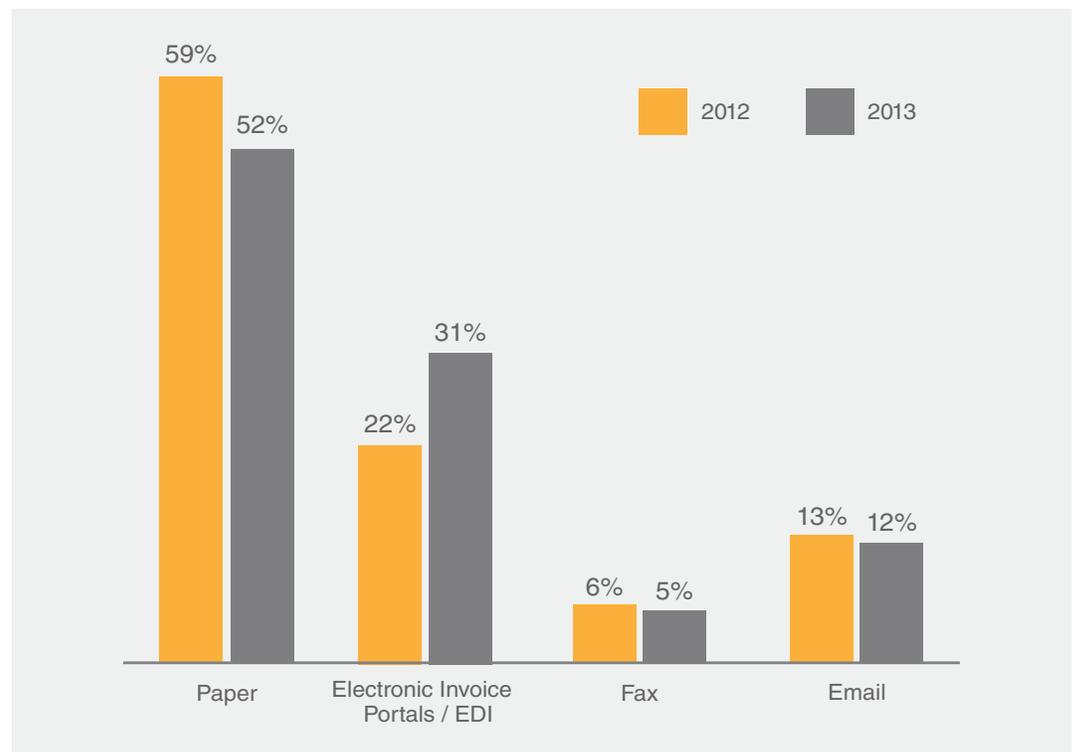
1. Small and medium-sized companies are struggling with manual, paper-driven processes and are realizing that automation can alleviate most of the challenges they face in their day-to-day operations.
2. The availability of affordable, easy-to-implement and use technology solutions is driving a renewed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

One of the key factors contributing to the eInvoice SME market growth is the need to automate invoice processing and reduce operational cost. While paper is still prevalent, PayStream's latest survey data reveals that 52 percent of supplier invoices are traded on paper, down from 59 percent in 2012, see Figure 1. To highlight the increase in adoption, we can look back even further – in 2010 77 percent of supplier invoices were traded on paper. That's a 25 percent increase in eInvoice adoption in just three years.

Figure 1

Breakdown of Invoices via Receipt Method

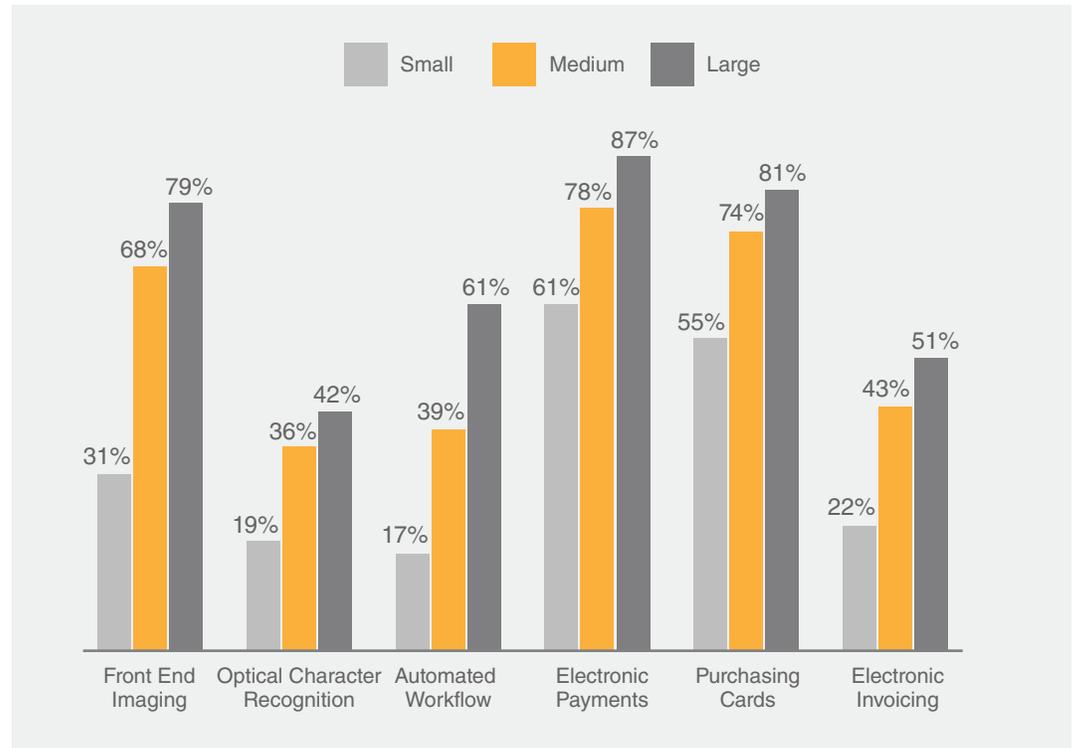
Paper invoices continue to decline as eInvoicing gains more traction.



While the goal is to remove paper from AP, there are suppliers still submitting invoices via paper. For this purpose, the majority of solution providers provide elnvoice conversion services such as scanning and data capture to convert paper invoices to elnvoices. Solution providers now work with a buyer's supplier base to help convert them to the elnvoice network which allows suppliers to submit invoices and buyers to submit electronic payments.

While large companies continue to lead the pack in automation, SMEs are quick to embrace AP automation, see Figure 2.

Figure 2
Adoption of AP Automation by Company Size



AP automation technology has been proven and the results of the larger companies are there for all to see. SME's are now replicating those results and reaping the benefits that the large early adopters witnessed. Integrating elnvoicing into a broader spectrum of AP automation to improve the entire AP process is a trend that PayStream predicts will continue in 2014. If an invoice comes in electronically without a system in place to route it through AP, a company is not much better off than it was with a paper invoice. With a workflow system in place, the invoice can move seamlessly through the system from invoice submission to approval.

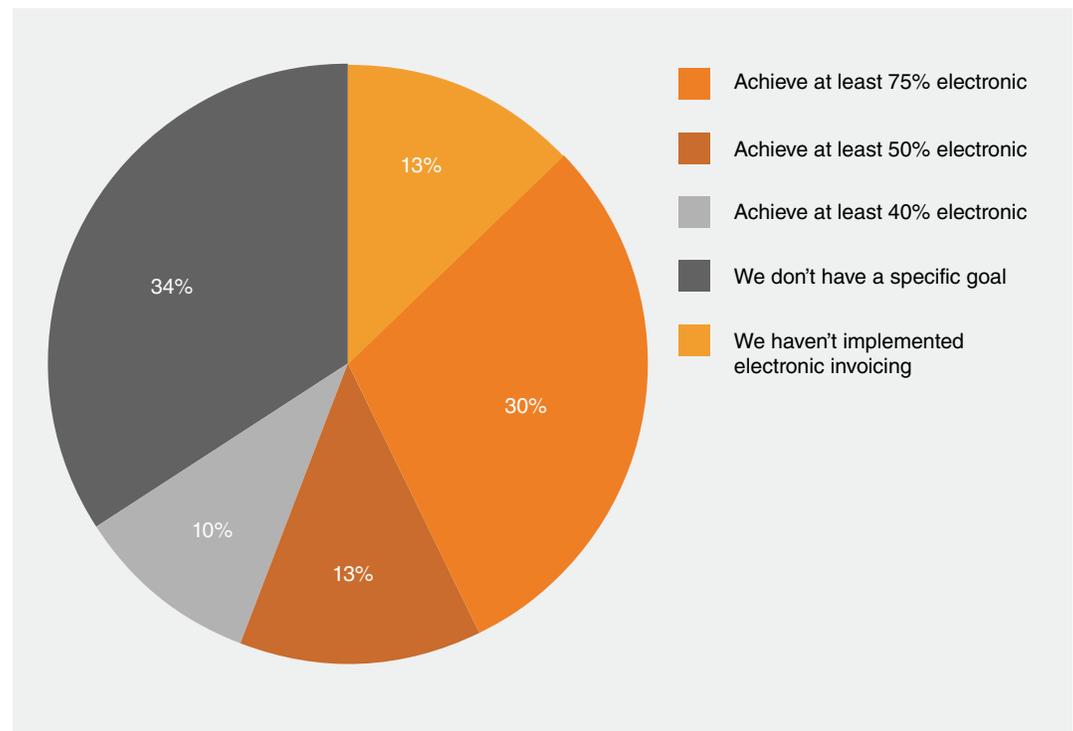
Drive Towards Straight-Through Processing

More companies are moving to touchless or straight-through processing to optimize invoice management. This requires moving from a paper-based system to a fully digitized and automated system, resulting in time and money savings in the form of fewer errors, less exceptions and a reduction in calls from suppliers.

Straight-through processing automatically matches and validates submitted invoices. eInvoice solutions now allow suppliers to self correct errors before the invoice reaches the buyer, resulting in payables being processed quickly, efficiently, and at a much lower cost. Suppliers can also quickly access payment status information themselves, which saves AP an exorbitant amount of time fielding supplier phone calls. This frees up AP staff to engage in more strategic activities.

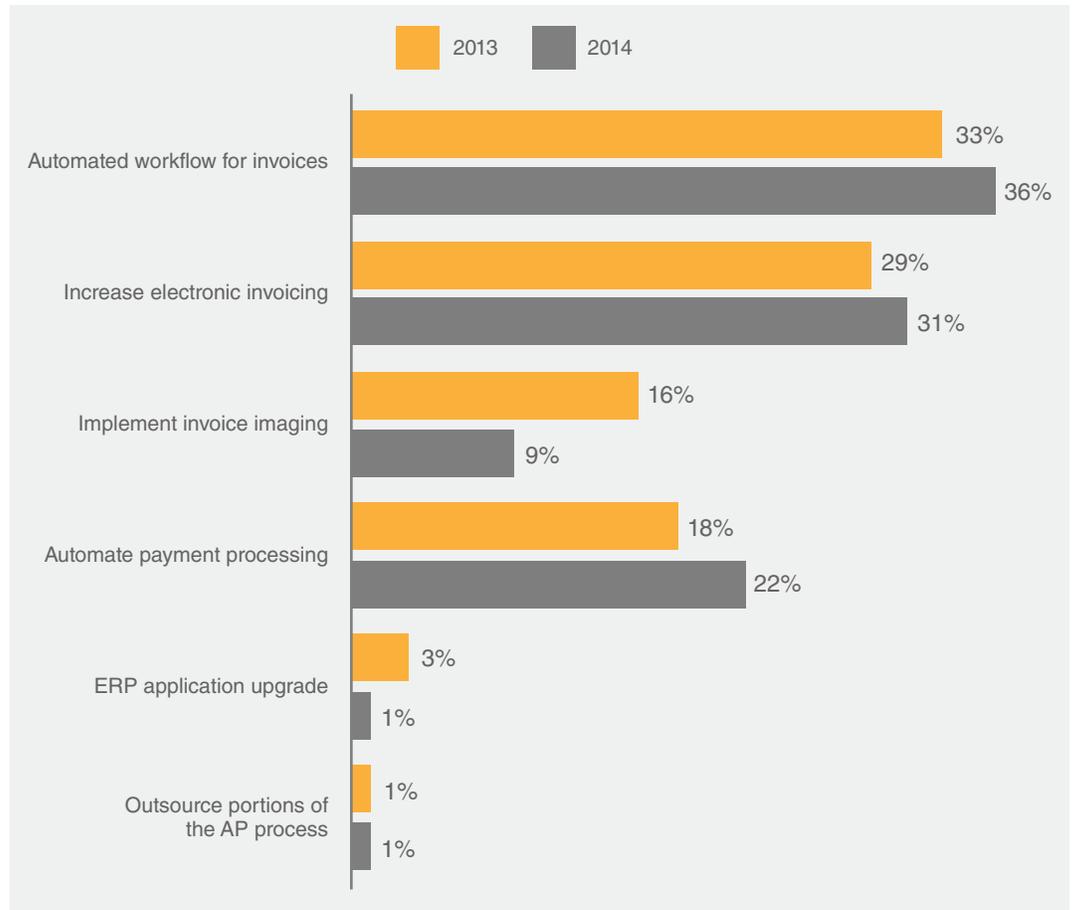
PayStream analysts are witnessing a trend towards more companies migrating to straight-through processing, and these companies are aiming high when it comes to AP automation goals. Over half (53 percent) of survey respondents reveal they are looking to implement eInvoicing in the coming year. Thirty percent are aiming high and are looking to achieve at least 75 percent electronic, see Figure 3.

Figure 3
2014 eInvoice Automation Goals



In addition to eInvoicing, automated workflow and automated payment processing rank at the top of 2014 AP automation goals, see Figure 4.

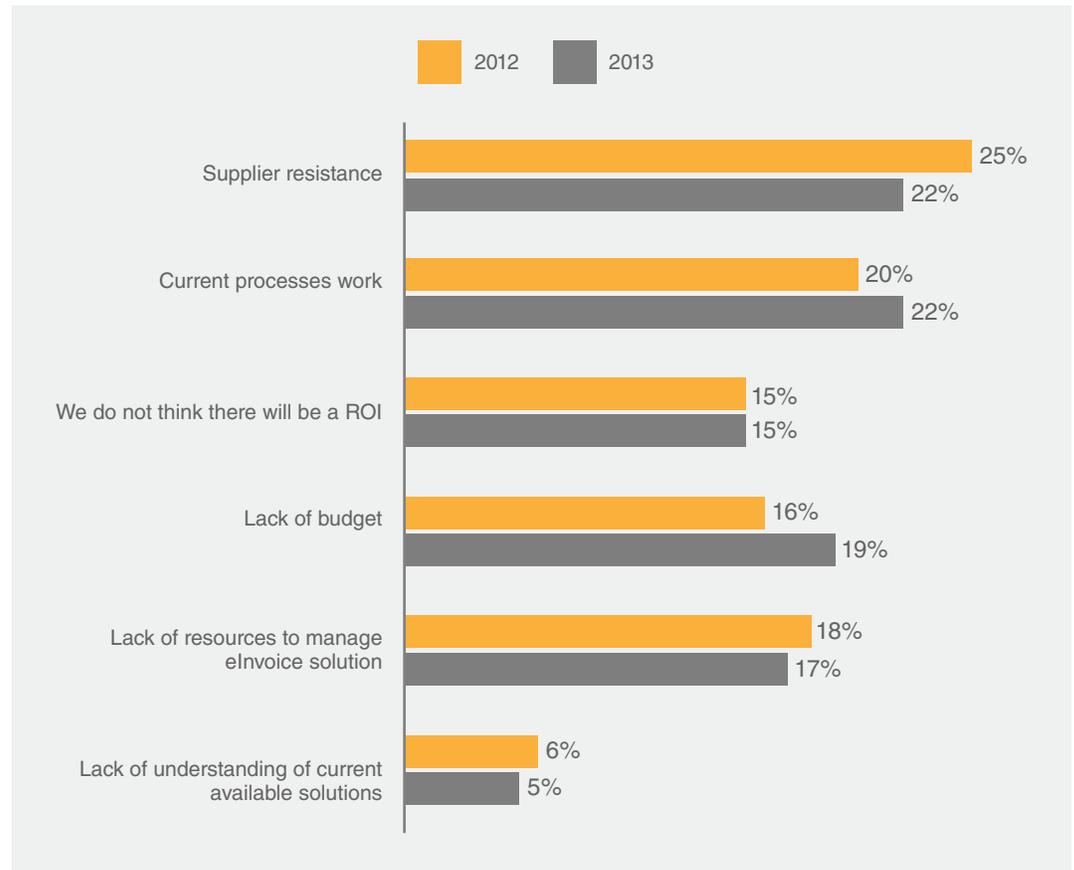
Figure 4
Top AP Automation Goals
for 2014



Electronic Invoice Barriers

While resistance to AP automation adoption is decreasing, barriers to adoption still remain. The perennial favorites – supplier resistance, the belief that current processes work, and lack of budget – remain the top three barriers, see Figure 5.

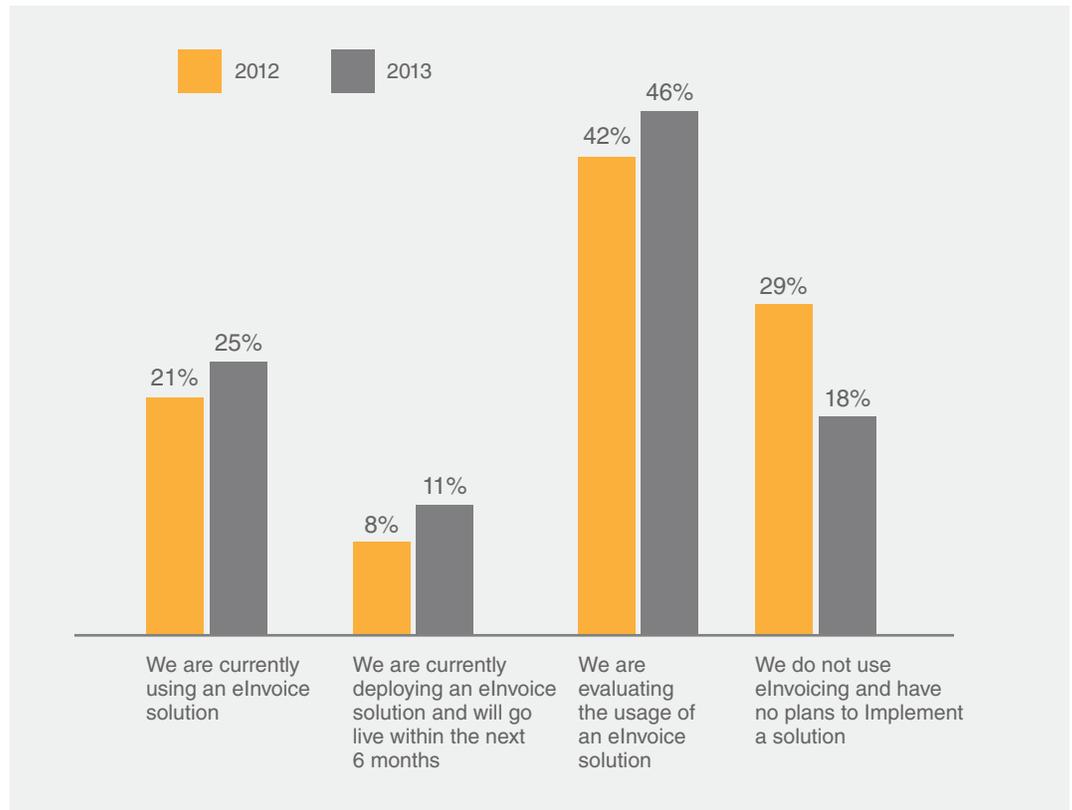
Figure 5
Barriers to eInvoice Adoption



This adaptability seems to be paying dividends as more than 82 percent of companies surveyed have either adopted or are evaluating eInvoice technology – up 12 percent from 2012, see Figure 6.

Figure 6

Adoption of eInvoice Solutions



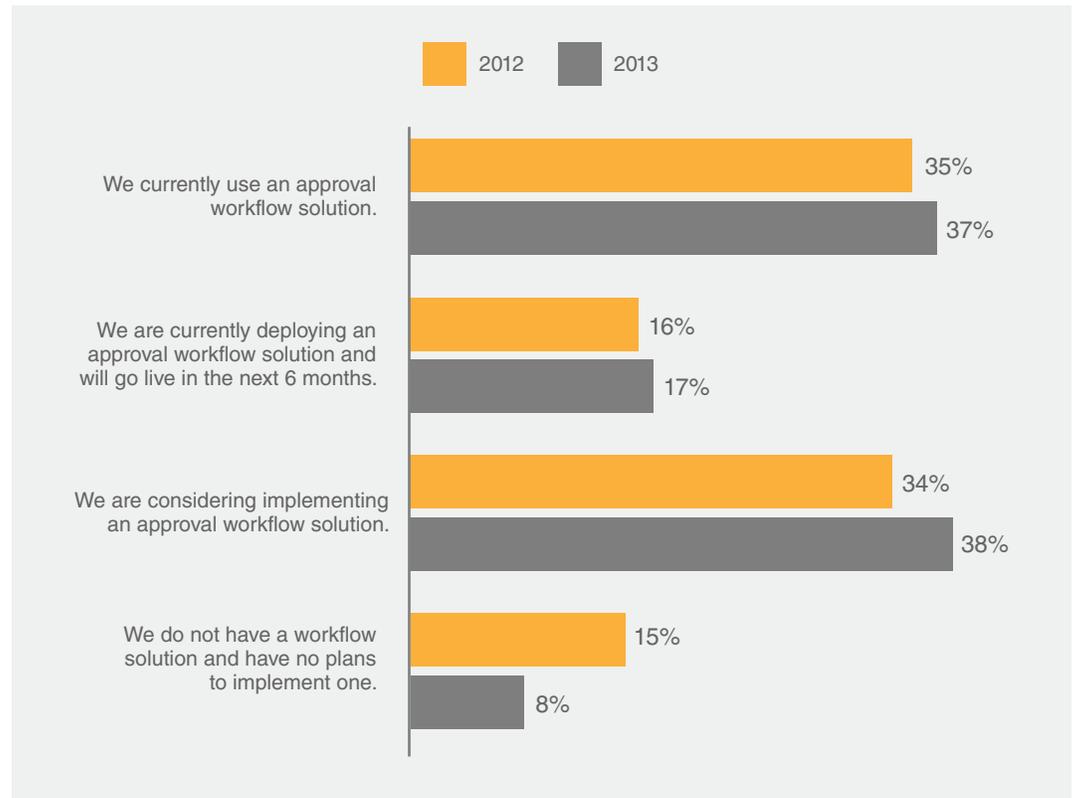
Building a Case for AP Automation

The true value in eInvoicing lies in how successful a company is at assimilating invoice data into accounting systems and management workflows. It is this culture of integration that is resulting in a higher percentage of invoices being processed straight-through, while yielding the best return on investment (ROI).

Adoptions of approval workflow solutions continue to increase, up three percent from 2012 to 54 percent in 2013. Also promising is the number of survey respondents reporting they are currently considering implementing an approval workflow solution, 38 percent in 2013, up 4 percent from 2012, see Figure 7.

Figure 7

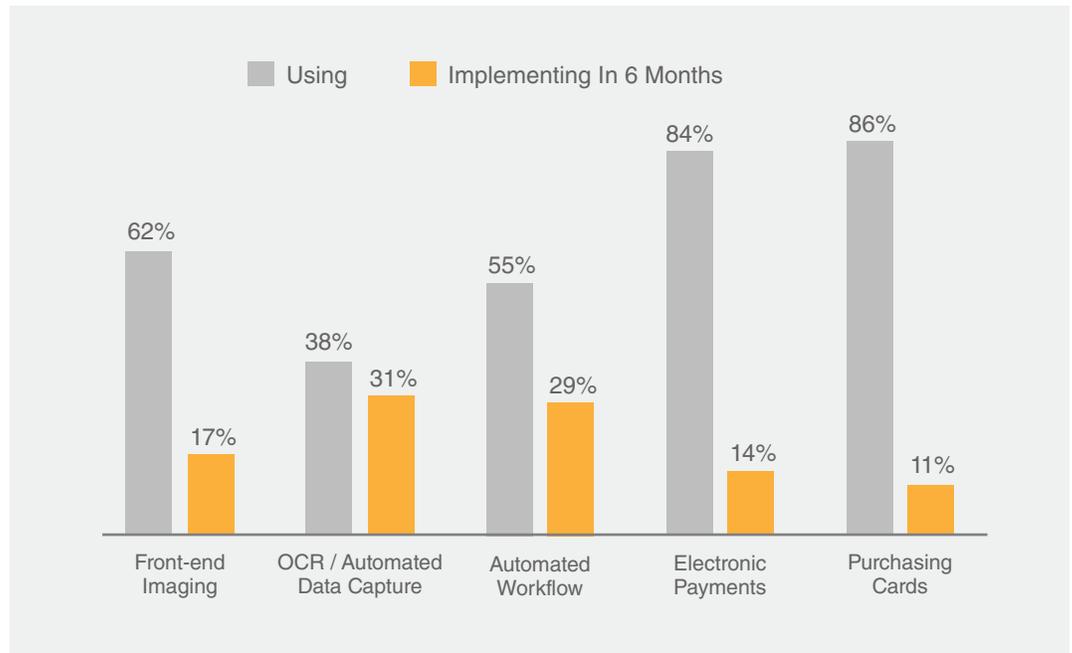
Adoption of Approval Workflow Solutions



Use of AP automation continues to increase across the board. Nearly 100 percent of companies surveyed by PayStream Advisors over the past year responded they have adopted or have plans to implement electronic payments (ePayments) and Purchasing Cards (P-Cards), see Figure 8.

Figure 8

Usage of AP Automation Technologies



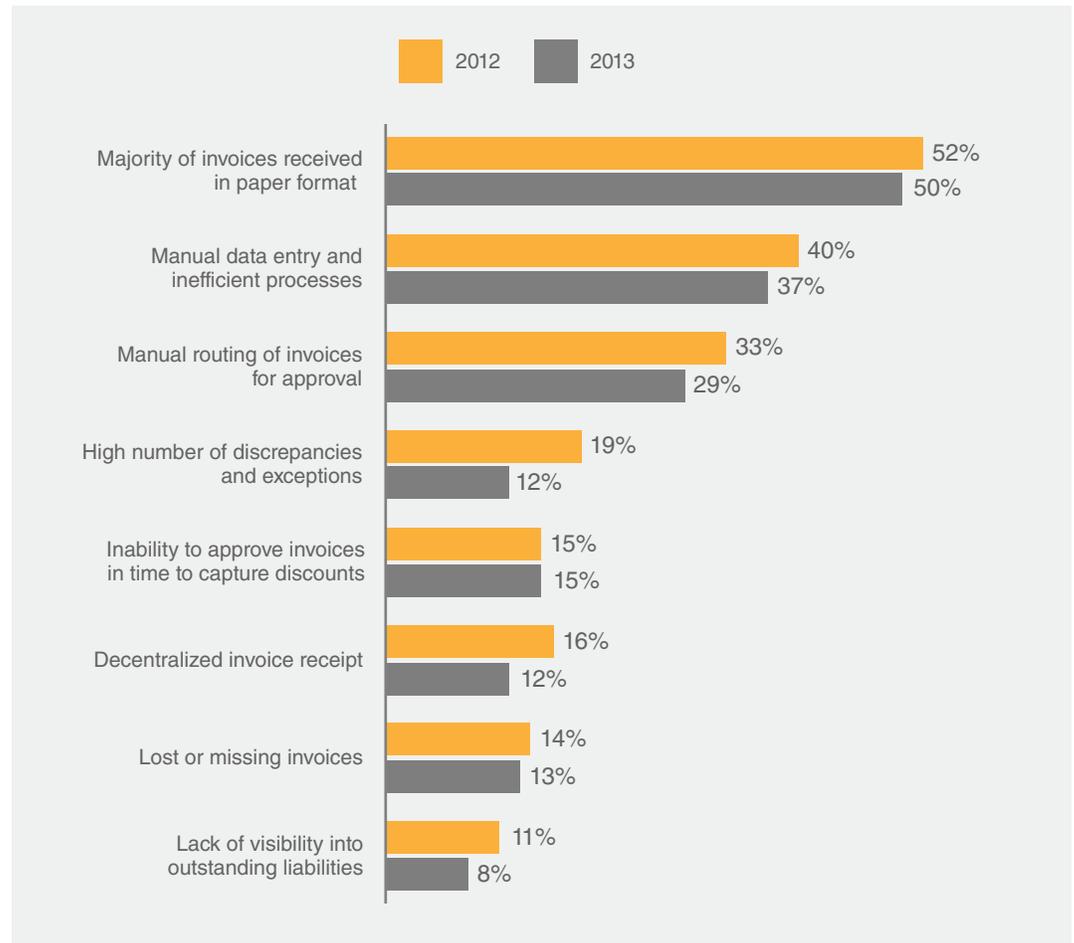
Challenges Faced in AP Operations

As the majority of invoices received on paper continues to decline the challenges associated with the invoice management process are also declining, see Figure 9. The reduction of paper invoices has led to significant process improvements, as more AP departments implement AP automation. As process improvements continue to increase, leading to greater accuracy and efficiency, momentum continues to build for broader applications of invoice management, including the ability to approve invoices in time to capture discounts, greater visibility into spending and improved cash management.

Figure 9

Challenges in the Invoice Management Process

Challenges are reduced across the board as paper invoices continue to decline.



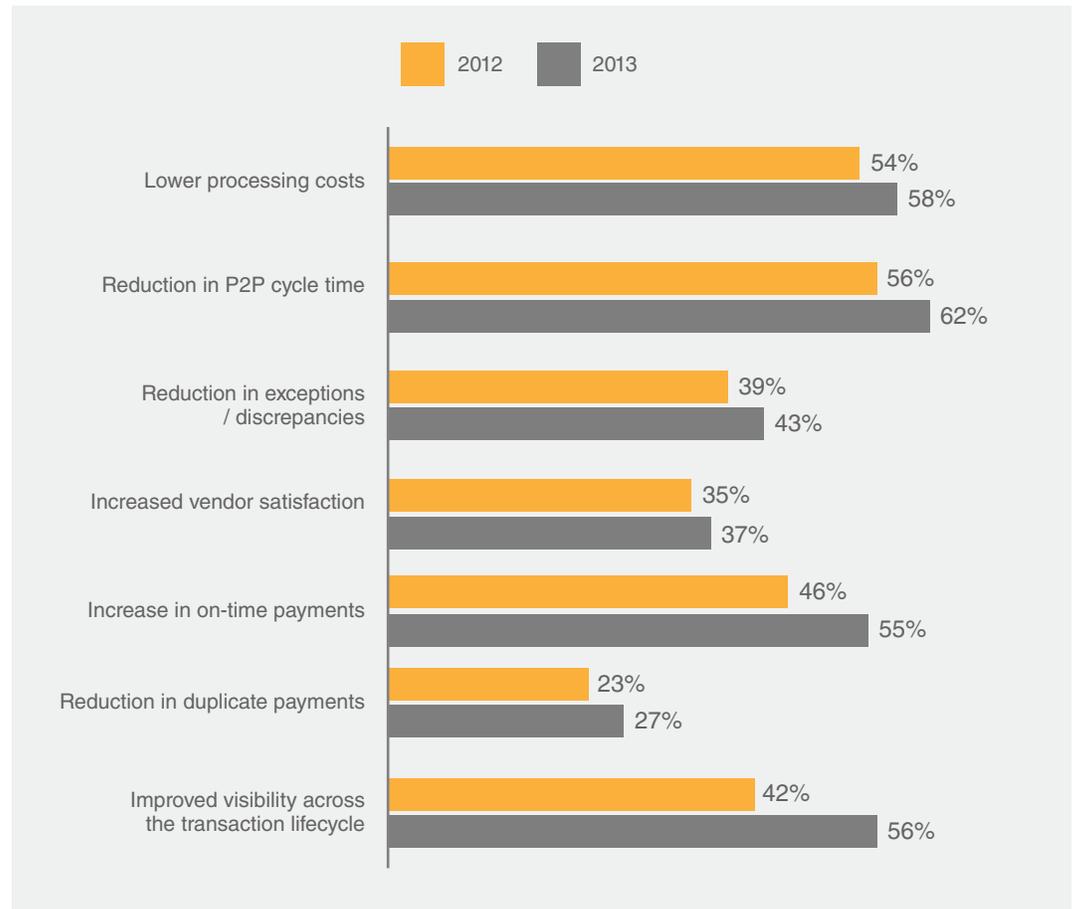
Factors Driving Interest in AP Automation

Historically the move from paper to eInvoicing has been driven by the accuracy and efficiency of workflow achieved by eliminating manual data entry and time-consuming routing of hard-copy invoices for approval. The current integrated approach to AP automation is being driven by a variety of factors. More than half of companies that adopted eInvoicing solutions cited a reduction in full time employee (FTE) or processing costs and faster approval cycles as key benefits, along with a broader application of eInvoicing solutions, see Figure 10.

Figure 10

Benefits of eInvoicing

Survey respondents report the top benefit achieved by implementing eInvoicing is the reduction in procure-to-pay cycle time.



As AP departments become more centralized, companies are reaping the benefits of stronger trading relationships, dynamic discounting, risk-management and cash management. Automation solutions that enable trading partnerships between buyers, suppliers and banks to seamlessly exchange transaction-related information and funds are becoming increasingly popular. Specific factors driving interest in automation include:

- » A competitive business environment is forcing businesses, especially SMEs to focus on reducing processing costs and increase efficiencies associated with invoices and employee expenses.
- » Streamlining the AP process has become vital in a tough economy where adequate cash flow and greater control over payables are critical to maintaining liquidity and sustaining business operations.
- » Increased interest in early payment discount capture drives smaller organizations in particular to investigate tools and technologies that enable them to compress their invoice receipt-to-approval cycles.

Buyers are not the only ones reaping the rewards of AP automation. Suppliers are rallying behind recent value-added services such as supplier networks, dynamic discounting, PO and invoice flips, and low or no-fee supplier transaction costs. Suppliers who have migrated to eInvoicing have reaped a number of tangible benefits including:

- » **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 eInvoicing 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 eInvoicing 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 shortens the invoice processing and approval cycle on the buyer side. Combined with electronic payments, this ensures that suppliers are paid on time, or in some cases, early.
- » **Improved Visibility:** Suppliers have real-time access to invoice and payment status from a standard Web browser, providing for quicker handling of reconciliation questions and fewer help desk calls.
- » **Better Cash Flow Forecasting:** Automating invoice processing and payments reduces uncertainties. Consistency around payment timing means suppliers can better perform cash flow forecasting.
- » **Eliminate Reprint Requests:** Electronic invoicing solutions drastically reduce the number of lost and missing invoices, which means reprint requests from buyers will virtually be zero.
- » **Quicker Dispute Resolution:** Suppliers now can view disputed invoices at any time and provide supporting/backup documentation as needed, making dispute resolution a collaborative process as well as accelerating resolution.
- » **Decreased Days Sales Outstanding:** Dynamic discounting and supply chain finance capabilities available as part of eInvoicing 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.

Overcoming AP Automation Road Blocks

Despite the steady increase in the number of companies adopting electronic invoicing, paper invoices remain a primary method of B2B billing in the United States. Barriers to adoption today remain the same as they've always been. Here's where things stand.

Supplier Resistance

Although eInvoicing expedites payments, the very prospect can raise the hackles of suppliers who are content with their paper-based system and not of a mind to change. Twenty-three percent of survey responders cited their belief that "current processes work" as the main reason for avoiding eInvoicing. It can be difficult to overcome resistance from suppliers who believe the saying, "if it isn't broke, don't fix it." In this case, the buyer's success depends upon demonstrating to their supplier a compelling value proposition.

Suppliers want to know "what's in it for them." Buyers need to have a compelling answer. Suppliers will respond positively to evidence that participating in a cloud-based eInvoicing solution will result in accelerated payments, new business referrals, enhanced reporting, financing opportunities, and improved cash management. Supplier recruitment also requires an ongoing effort. The steady growth of supplier participation demonstrates the positive results of persistence.

Technical Challenges

This was once a formidable obstacle. Today, however, the challenge of integrating new applications with legacy systems is becoming less daunting. Most applications on the market today integrate easily with systems on buyer and supplier sides, resulting in secure and seamless data transfer, as well as streamlined processes and more efficient workflows. This trend should accelerate as companies replace older legacy systems with modern architecture, and adopters realize the benefits of faster approval and cycle times, better cash flow forecasting and vendor relations.

For those companies concerned with the upfront costs of technology, hosted solutions and SaaS delivery models offer minimal implementation costs. The technology providers are responsible for maintenance and upgrades.

Business Practices

Electronic invoicing requires a tremendous change in the way buyers and suppliers conduct business. Many suppliers are concerned that if they switch to electronic invoices and payments they will lose the remittance detail they need for payment reconciliation. The emergence of invoice, payment and remittance advice consolidation; however, is starting to alleviate this issue. These services, provided by third party invoice and payment networks and processors, collect detailed

payment information from buyers and make it readily available to suppliers in formats compatible with their accounting systems. With many solutions, suppliers have multiple options for receiving detailed remittance information - email, fax or even direct integration with their accounting systems.

Buyers' concerns about loss of check "float" have largely become a non-issue, thanks to a combination of extremely low interest rates, faster check processing, and the emerging ability to manage payment dates using purchasing cards, dynamic discounting, and other electronic payment tools.

External Change Begins with Internal Change

More than 32 percent of survey respondents indicated they send more than half of their purchase orders electronically to suppliers, up 25 percent from 2012. However, organizations of all sizes have internal struggles when it comes to managing change. To gain better acceptance from suppliers, it is a good practice to involve them in the process rather than autocratically mandate change. One proven method to increase supplier acceptance of eInvoicing is to give suppliers the ability to conduct purchase order (PO) flips. PO flips provide value to suppliers by enabling them to convert POs directly into invoices by drawing data directly from the PO. The more accurate and timely an invoice, the quicker a supplier gets paid.

iPayables

Founded in 1999, iPayables is a leading provider of internet invoice delivery services specifically tailored for medium and large accounts payable (AP) departments. Fortune 100, 500 and 1000 companies all over the world trust iPayables invoice solution InvoiceWorks to reduce paper processing costs and increase efficiency in AP.

Since iPayables inception, the company has processed nearly a quarter trillion dollars' worth of invoices for over 200,000 companies in 170 countries and in 22 languages. Nearly 200,000 suppliers submit invoices through the iPayables solution. There are no supplier fees and supplier adoption is free, which accounts for the company's higher than average adoption rate.

iPayables interfaces with Enterprise Resource Planning (ERP) systems using standard batch or real-time interfaces that allow InvoiceWorks to stay in sync with client accounting systems. End users can quickly access accurate information via InvoiceWorks online. iPayables recently released the InvoiceWorks mobile application that allows users to quickly view and approve invoices via their mobile device.

Website	www.ipayables.com
Founded	1999
Headquarters	Aliso Viejo, CA
Other Locations	Orem, UT
Number of Employees	<100
Key Clients	American Airlines, JetBlue, YUM, Paramount, FedEx Office, Kroger
Target Verticals	Airline, Healthcare, Food Services, Entertainment
Solution Name	InvoiceWorks

Solution Overview

iPayables automates AP departments by enabling organizations to improve workflow and streamline invoicing. The advanced iPayables internet invoicing system allows companies to process invoices electronically, make corrections and track payments, all while eliminating supplier phone inquiries, data entry, filing and scanning of documents. The iPayables platform is secure, easy to implement and use and enables suppliers to access information via the internet.

InvoiceWorks casts a wide net in terms of functionality, and includes purchase order (PO) delivery, acceptance, PO flip and upfront matching, online entry of invoices, online file upload, automatic FTP upload, imaging, workflow, business rules, hierarchies, reminders and escalation, payments and dynamic discounting. InvoiceWorks automates nearly every payables function.

iPayables prides themselves on their customer service and high client retention rate. They are dedicated to building a relationship with their clients from set-up and implementation to solution optimization.

Supplier Recruitment

There are no supplier fees to connect to the iPayables supplier portal and supplier adoption is free. Nearly 50,000 suppliers have activated themselves on the InvoiceWorks network and nearly 200,000 suppliers have submitted paper invoices through the InvoiceWorks system. To aid in supplier onboarding, iPayables reaches out to client suppliers via phone and email. There is no additional fee for supplier onboarding efforts.

Electronic Invoicing

Suppliers can submit invoices online via web forms, PO flips or utilize the online file upload feature. Larger suppliers can quickly set up automated FTP services with standard formats including EDI, XML and CSV. Suppliers unable to send invoices electronically can send paper invoices to a designated PO box. iPayables scans paper invoices and indexes the information to transform it into electronic format.

Invoice match validations include field validations that can be flagged as required or prompt a warning message. Most fields can also include validation lists. Validations can also include two or three-way PO match and contract match. All invoices are validated against customer specific data which is determined during the InvoiceWorks implementation process. Unless an invoice complies with the customers preset specifications, InvoiceWorks will not allow the invoice to be submitted. The system shows an error message which informs the user exactly what invoice information is missing or needs to be corrected in order for the invoice to be successfully submitted.

Approval Workflow

InvoiceWorks workflow functionality is based on rules and hierarchies. Entry rules are the first step in the InvoiceWorks approval process and determine how an invoice arrives to the customer. This can be as simple as a requester identification number entered by the supplier or a location code. This routes the invoice to the correct approver, not just the AP department. Based on next in line relationships that the client creates, invoices are routed to the next in line user.

Hierarchies can be created such as GL account hierarchy structures. Invoices in foreign currency are converted with daily updated conversion rates to the client's base currency and the base currency amount is utilized for approval routing and approval limit validation. Business rules are also incorporated into the InvoiceWorks workflow and can be created based on a client's specific needs.

At any time during the approval process a client can implement a manual stop. This permits specific users to approve certain invoices that do not require the creation of a permanent rule. In addition, InvoiceWorks allows for late approval escalations. If an invoice has not been approved within a specified time period, a notice is sent to the next approver in line. This ensures that invoices continue moving through the system without interruption. Job sharing and vacation reroutes are also standard in the InvoiceWorks system. In addition, clients can view the entire history of an invoice.

Electronic Payments

iPayables simplifies the payment process by either providing approved electronic invoices to be paid by a client's ERP or payables system, or providing complete payment management. iPayables provides a wide range of payment options including Customer System Delivery, ACH transactions, American Express P-Card, MasterCard P-Card and Check printing.

iPayables also provides discount management tools. Suppliers are notified when an invoice is approved and can be paid early with a discount. The discount is completely controlled by the client. Suppliers can either opt to accept the discount or select a date to be paid. This greatly improves cash flow forecasting.

Reporting and Analytics

iPayables utilizes ad-hoc reporting that allows users to create any report without having to email a query to an IT specialist. Ad-hoc reporting allows the user to select the specific information needed and formulate a report based upon pre-determined criteria. Users can also create custom reports.

Pricing and Implementation

As a hosted solution, implementation and set up of InvoiceWorks is completed quickly. There is no hardware or software implementation. iPayables charges a low implementation fee, a monthly fee and a per transaction fee. There are no per seat license fees, no additional or subscription costs for workflow or dynamic discounting; however, dynamic discounting includes a discount share.

Training and Support

InvoiceWorks implementation includes system administration training as well as webinar training for all users. iPayables supplier adoption services provide free training to suppliers. In addition, help desk support is available most U.S. business hours for users via email, phone and multi-lingual chat.

Conclusion

Early eInvoice adopters have witnessed firsthand the efficiency and cost saving opportunities derived from AP automation. The SME market is now tapping into eInvoicing and AP automation initiatives to reap the benefits that the large early adopters did. However, companies of all sizes are now realizing that eInvoicing is just scratching the surface of AP automation and additional opportunities lie ahead in the form of automated workflow, P2P automation, improved cash flow and working capital management.

Companies currently considering AP automation need to plan beyond eInvoicing and know what they plan to do with the data once they get it. Without a supplier management strategy and a culture conducive to workflow automation, the potential for friction is high. The solution providers in this report have devoted considerable developmental resources toward addressing this problem, and PayStream is encouraged by what we are seeing.

Today's savvy eInvoice solution providers are able to quickly and cost effectively arm companies with the automation tools needed to turn AP departments into profit centers. Electronic invoice management and automated workflow are top priorities for companies in 2014, and PayStream predicts this year to be a banner year in terms of automation adoption in the U.S.

Research Methodology

The findings in this report are based on the results of PayStream Advisors Invoice and Workflow Automation Adoption and Electronic Invoice surveys conducted in 2013. Participants in the surveys included more than 300 AP, treasury and procurement professionals. Based on PayStream's experience and the number of survey respondents, the survey has a confidence level of +/-7 percent with a 95 percent level of confidence.

About PayStream Advisors

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.