

2015 Invoice Workflow Automation Report

Exploring the Efficiency and Value of Invoice Workflow Automation (IWA) Technology

Q4 2015 | Featuring insights on...

- » Current Market Trends in IWA Software Usage
- » Benefits of IWA Software
- » Functionalities of IWA Software
- » A Leading IWA Solution Provider

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Introduction

A fundamental challenge for the Accounts Payable (AP) professional is managing the lifecycle of supplier invoices in a way that is both secure enough to ensure compliance and fast enough to increase savings and promote good supplier relationships. Manual invoice processing rarely affords the opportunity to meet these goals—instead, it results in high processing costs, lost and error-ridden documents, late payments, and dissatisfaction from both external (suppliers) and internal (administration) parties.

With invoice workflow automation (IWA) solutions, AP departments can combat and greatly reduce inefficiency. IWA software's secure, transparent, holistic functionality fills in the gaps left by manual procedures. These solutions do not only reduce processing times and lost or duplicate invoices; they also increase organizations' ability to capture early payment discounts and reallocate AP staff to more strategic tasks.

PayStream Advisors' research shows that IWA is one of the most important tools for back-office efficiency, as it consistently provides substantial ROI. This 2015 Invoice Workflow Automation Technology Insight report offers a summary of PayStream's latest market research related to IWA usage trends, and highlights the most recent developments in IWA functionality.

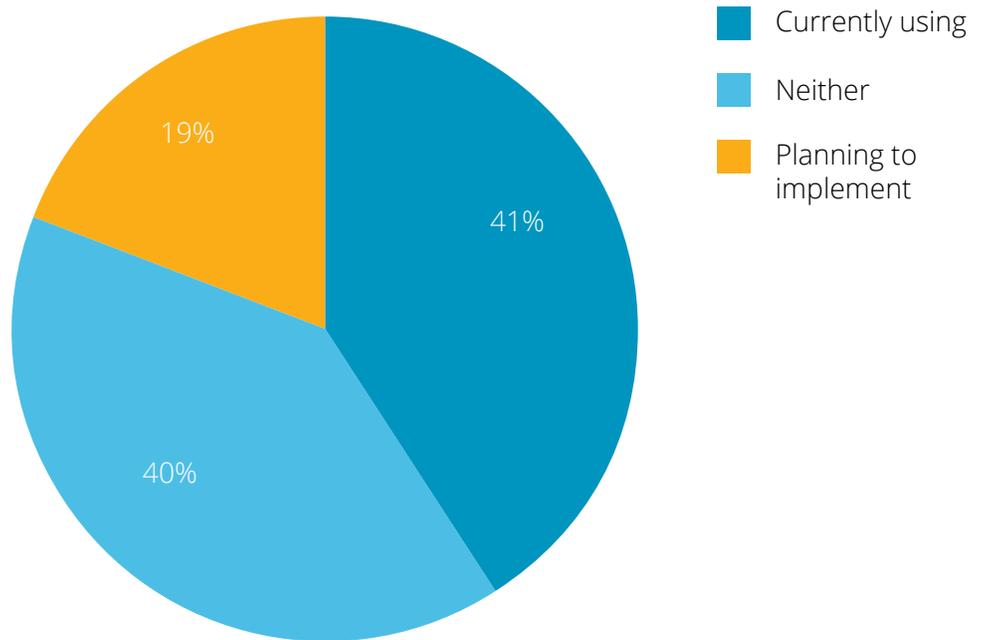
IWA Today

PayStream Advisors surveyed over 200 individuals employed in many different industries, compiling data reflecting current attitudes towards and usage of invoice automation software. According to research results, 41 percent of organizations are currently using an invoice workflow solution, while 19 percent reported that they are planning on implementing a workflow solution in the next year, see Figure 1.

Figure 1

More Than Half of Organizations Are Using or Have Plans to Implement an IWA Solution

"Are you currently using or planning to implement an automated workflow solution in the next 12 months?"

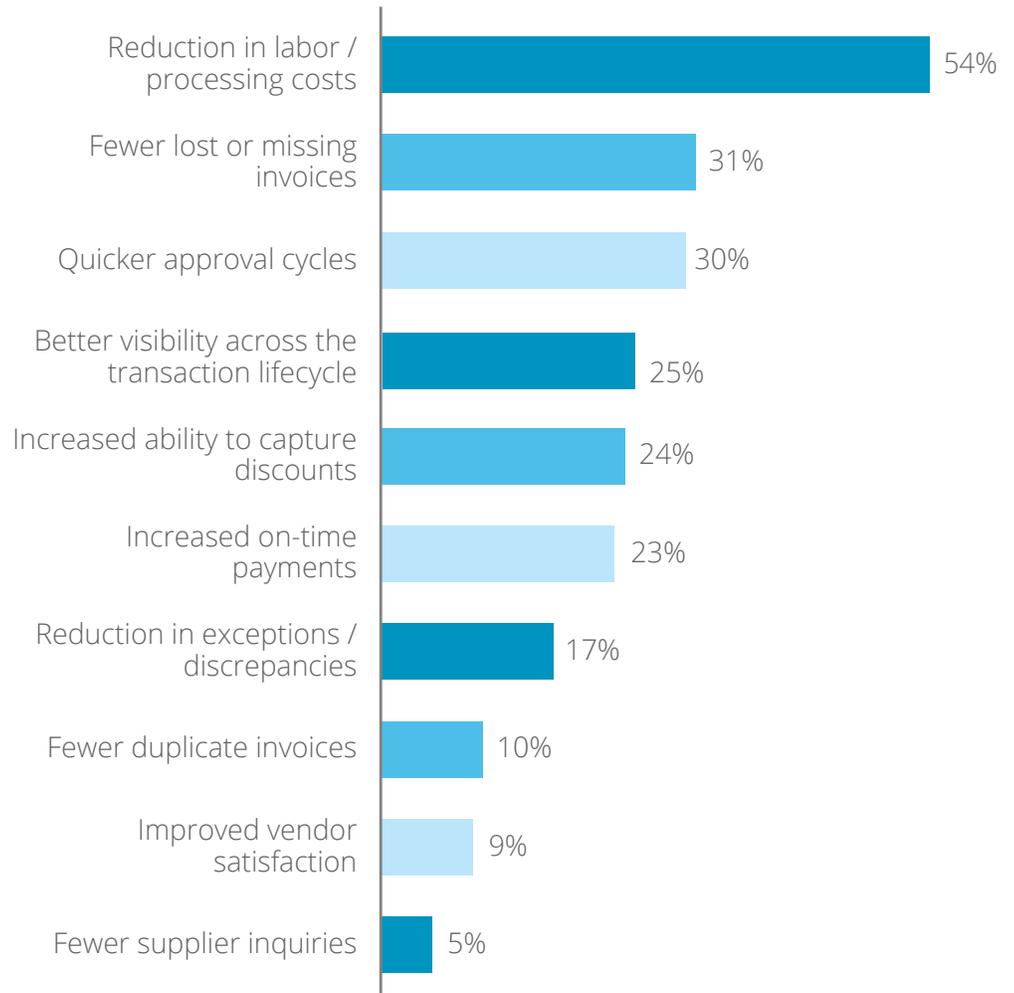


There are many common factors that drive organizations away from manual invoice management. When asked why they are planning to automate, most organizations reported that they hope to reduce costs, reduce lost or missing invoices, and/or save time in the invoice approval process, see Figure 2.

Figure 2

Cost, Process, and Time Control Are Great Concerns for Many Organizations

“What factors are driving your organization to consider an electronic invoicing solution?”



Invoice workflow automation goes a long way in controlling issues of time, accuracy, and cost—especially when considering the fully-loaded processing cost per invoice. This amount, which includes spend for AP staff salaries, managerial overhead, facilities, and IT support, can vary greatly depending on the level of automation in the AP department. According to data gathered from PayStream Advisors’ consulting engagements and benchmarking groups, the average fully-loaded cost with manual invoice processing is \$40.70 per invoice. With an IWA solution, AP departments can potentially reduce their fully-loaded cost per invoice substantially.

It is important to note that most organizations (84 percent of those surveyed) do not track their invoice processing costs, which prevents them from properly identifying and correcting process inefficiencies. Invoice workflow solutions track invoice movement as well as costs,

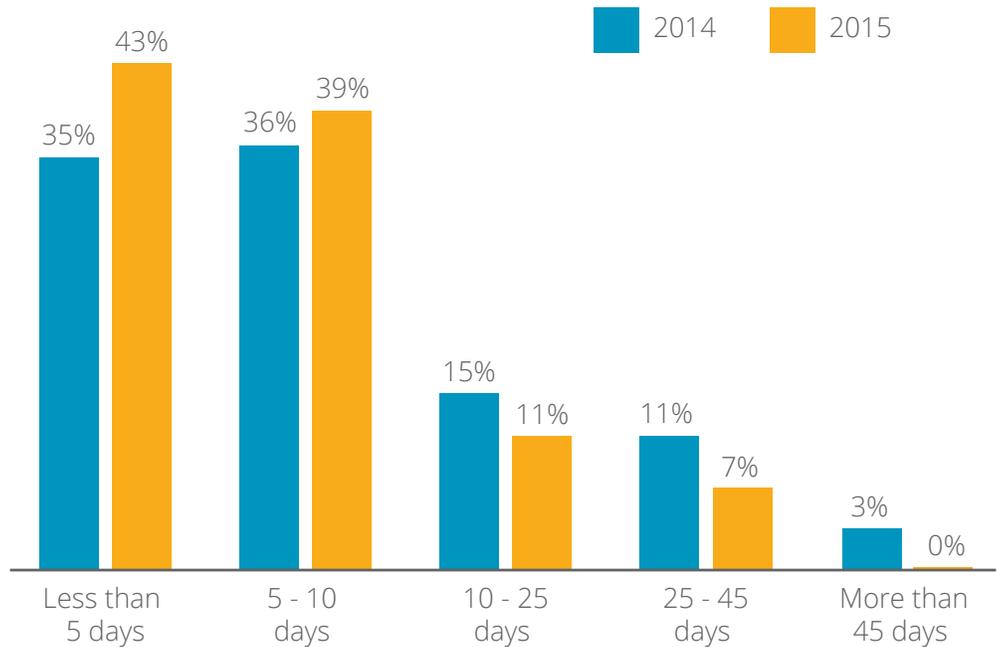
granting organizations more control—and the ability to fine-tune, strengthen, and shorten the workflow process.

Research shows that most organizations (43 percent) are able to process their invoices in under five days, while 39 percent process them in five to ten days, see Figure 3. However, 11 percent report an approval process between ten and twenty-five days. Fortunately, research results show an overall reduction in approval times when compared to last year's data, and PayStream expects this trend to continue as IWA adoption grows in the market. More organizations are recognizing the potential of IWA software to shift an organization from a 45-day approval process to same-day approvals.

Figure 3

Approval Times Have Shortened Between 2014 and 2015

“On average, how long does it take your organization to approve an invoice from the time it is received?”



The IWA Universe

Because businesses' infrastructures can be complex and require careful management, the functionalities of invoice workflow automation technology are by no means simple tools. An IWA solution is designed to adapt precisely to existing business structures, diverse supplier bases, and complicated approval hierarchies. In order to meet these requirements, the software must be highly advanced, customizable, and versatile—from beginning to end of the invoice lifecycle. This section highlights the basic and leading features in advanced IWA solutions.

Invoice Receipt

Before an approval workflow solution can operate successfully, invoices must be entered into the organization's system in an efficient, timely, and accurate manner. There are two primary ways to input invoices electronically into a workflow system—through the use of a scanning and OCR data capture process or an eInvoicing network.

OCR Data Capture: Optical Character Recognition (OCR) is the electronic conversion of scanned images or text to a machine-encoded document. OCR extracts the relevant data from scanned paper or PDF invoices and sends it through validation and routing. OCR technology can be used in several invoice receipt methods, including mailroom services, email extraction, and online portals.

After invoice data is extracted, the OCR-converted documents are verified against a set of validation rules; the solution compares specific fields against the information held in the appropriate back-end system (e.g., purchase order numbers against the purchasing system). Validation technology is a second round of checks and balances for invoice consistency and compliance—after the initial capture of data, it re-affirms the integrity of business documents before they are assimilated into the main workflow system.

The use of an advanced OCR technology ensures a high level of precision, consistency, and compliance. Advanced OCR technology provides capture capabilities that have excellent pass-through rates when scanning paper documents, and some technologies are able to extract data from the subject and body of emails rather than only

the attachments. In all, the more advanced the OCR software, the more streamlined the routing process becomes down the line.

eInvoicing: The electronic submission of invoices eliminates all manual data entry by the buyer. There are three methods of electronic invoicing:

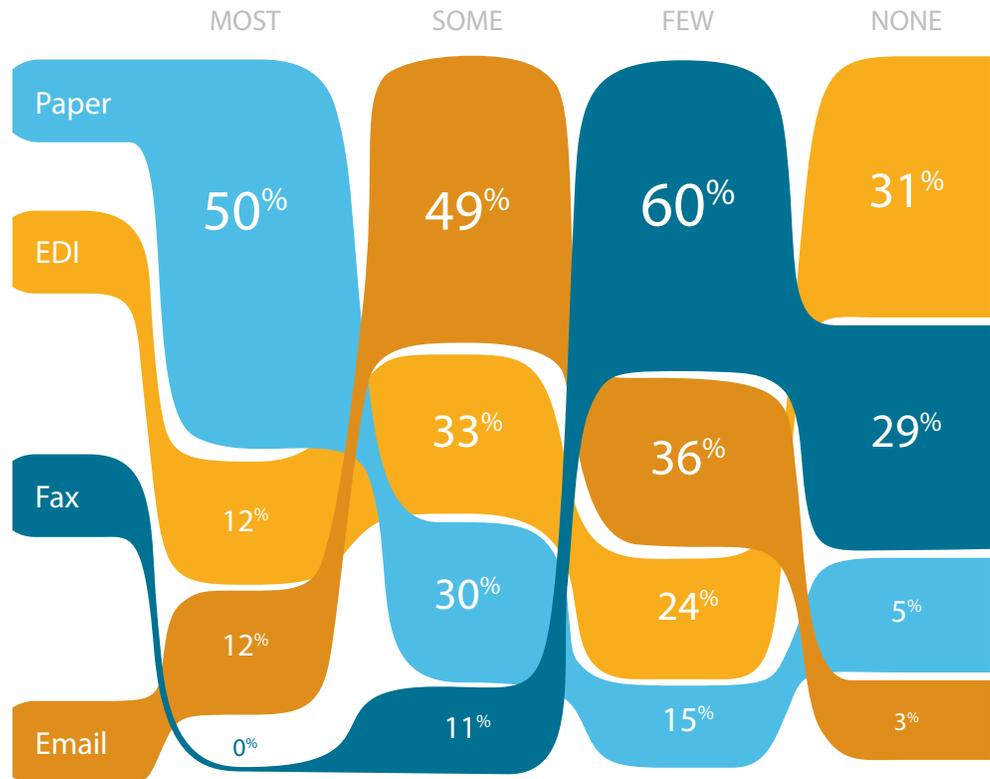
1. Traditional direct integration with the supplier's back-end AR system, typically done via Electronic Data Interchange (EDI) or XML files.
2. Online fillable forms (usually as part of a supplier portal), which ensure that a uniform invoice is submitted every time
3. A print-to-cloud solution that validates PDF elements instantly and notifies suppliers in real time that their invoice is missing necessary elements.

Advanced eInvoicing solutions are free for suppliers, and many feature advanced global capabilities for complex invoice requirements in Europe, Asia, and Latin America. The greatest advantage of eInvoicing is the ability to send invoices straight to the approver and then straight to payment (i.e., straight-through processing).

Invoices can be put into the approval workflow system using either of the above methods, but organizations need not choose only one. PayStream has found that most companies receive their invoices in a wide range of invoice formats, see Figure 4. Therefore, the most effective way to efficiently input invoices into a workflow system is to employ a strategic mix of electronic invoice receipt methods.

Figure 4
Organizations Receive Invoices in a Wide Range of Formats

“What amount of invoices does your organization receive in the following formats?”



Matching and Routing

Workflow solutions enable AP departments to define how different types of invoices are processed. Invoice matching and routing involves linking invoices to POs and other receiving documents, then sending them through the appropriate approval chain based on terms identified within the invoice (such as PO number). PO-based invoices can be matched against the purchase order and receipt documents automatically, while non-PO invoices are routed to the appropriate approvers.

All invoices are routed based on predefined business rules, and user roles and access rights can be set to match the organization’s existing approval hierarchy. Many solutions give client administrators control over individual user access rights. Administrators can then delegate the types of approvals for each employee, their level of visibility, and their authorized dollar thresholds.

Advanced technologies provide field-level matching, meaning that they match specific characters in invoice line items with their counterparts in POs. Some solutions create notifications or workflows driven by fields with invalid or missing data, and some feature the ability to dictate workflows for non-PO invoices based on invoice contents. Users may also assign non-PO invoices to specific categories within the general ledger, and advanced solutions allow specific line items to be assigned to multiple cost centers or multiple POs.

The accuracy of some rules-based matching engines, in combination with eInvoicing, allows many companies to automatically pay invoices that meet all validation rules shortly after receipt, letting AP staff focus only on exceptions. This pass-through feature can be used for low-value or recurring invoices (such as utility bills).

Invoices that fail validation and matching undergo a pre-established workflow and routing procedure, also called exception management. Invoice exceptions could be a discrepancy between an invoice and a PO or missing information such as PO number, approver's name, or location code. The exception management process lets users re-route invoices and fix errors by viewing the original invoice to identify handwritten, printer, or OCR errors. Advanced exception management software allows for the creation of custom workflows depending on the type of exception present. These solutions also enable users to set thresholds for non-PO invoices to identify potential errors or fraud, such as an invoice for snowplow services in July. In addition, many systems put the responsibility of exception and discrepancy resolution back on suppliers, returning the document to them for correction before allowing it to enter the main workflow system.

Approval

Once invoices have been validated, matched, and routed into the appropriate queue, a variety of approval workflow capabilities ensure that they are approved in a timely manner. Most invoice workflow solutions are highly configurable; they are built to adapt to an organization's existing approval hierarchies and even enable more complex routing (e.g., between different departments and cost centers). During and after initial setup of a solution, organizations can easily adjust workflows according to their own business rules, legal requirements, and the invoice type, amount, or other content. Advanced solutions facilitate this customization through visual workflow editors with detailed process flows and drag-and-drop functionality.

When invoices require review, approvers can typically be notified via email or mobile alerts. Most solutions come bundled with alerts and reminders for approvers, out-of-office delegation rules, and escalation procedures for overdue invoices. Prioritization capabilities allow organizations to move invoices with discounts to the top of the processing queue, ensuring that they are approved in a timely manner. In addition, some solutions feature workload-balancing features that redistribute the invoices in an approver's queue to different employees if that approver's workload exceeds a certain number of invoices.

AP interfaces make approvals easier and more transparent. Dashboards allow users to navigate in-progress invoices, providing complete histories of the documents. Supervisors can track the status of individual invoices or approvers, reorganize and prioritize unapproved invoices, and access audit trails at any time.

Some solutions offer approval capability directly from within emailed notifications; in other situations, users can click on the hyperlink contained in the email and log onto a system to view, code, and approve invoices online. Many solutions also offer mobile approval capability through native apps. Offering multiple methods for approval keeps invoices moving through the system when approvers are on the go.

Payment and Reconciliation

After an invoice has been approved, it is sent forward to payment. Basic solutions create a payment file that goes to the ERP (which then initiates payment or sends a message to AP). These solutions also facilitate the input of ACH information and integration with back-end AR systems.

To complete the invoice lifecycle, leading solution providers offer an in-house or partner-provided electronic payments solution. For advanced solutions, this entails integration with virtual card solutions and active supplier onboarding services. Some solution providers even cut checks on behalf of the buyer if they fail to onboard suppliers to virtual cards or ACH.

Some IWA providers offer a web-pay portal for vendors to log in and view invoice and payment transaction status in real time. These portals can also support different payment types and delivery format of remittance information based on supplier preferences.

IWA Extras

A leading benefit of IWA solutions lies in the efficiency they bring to many other AP activities. The three main areas that become more efficient with invoice automation are working capital management, supplier management, and spend management.

Working Capital Management

With the proper capture and automated workflow solution, a large volume of invoices—along with their discount and penalty information—can be entered into the AP system within hours of their receipt, then approved and processed in time to capture all discount opportunities. Leading workflow solutions give organizations access to additional working capital management tools such as dynamic discounting, supply chain financing, and virtual card accounts (and other electronic payments). These tools all increase companies' savings and bottom line, either through sliding scale discounts, third-party financing, or payment rebates. Moreover, working capital management tools benefit the supplier through quick invoice payments, thus improving business relationships.

Supplier Management

Most invoice automation solutions, especially those with an eInvoicing offering, provide a vendor portal with supplier self-service capabilities that speed up and streamline invoice processing. These portals also facilitate better supplier-buyer communication and dispute resolution.

Basic supplier portals allow suppliers to upload invoices, check on the status of invoices, and communicate with buyers about exceptions and errors. Advanced solutions permit buyers to create custom business rules at the point of supplier portal invoice upload. These rules create instant error notifications and allow PO flip from within the portal. Solution leaders also enable suppliers to input payment preferences, upload payment information, and verify payment information in real time.

Spend Management

Most IWA solutions combine process transparency with robust reporting and analytics tools, greatly improving an organization's ability to audit, analyze, and improve procedures. Basic generated reports can be exported to a spreadsheet tool, and include first-pass success rates, exception rates, and open invoices for any defined period of time. Advanced solutions feature internal benchmarking, allowing users to review how their organization compares to other end-users of the solution. Leading solutions also offer a drag-and-drop functionality and exceptional drilldown capabilities from within a reporting dashboard.

Many IWA systems additionally offer sophisticated invoice and payment audit technologies. Audit solutions can integrate seamlessly with numerous accounting applications, and can flag potential duplicates. Clients have the option of configuring the business logic that will be applied to identify erroneous payments, and the solutions generate reports on a periodic basis highlighting potential payment errors for resolution.

IWA Adoption Best Practices

Invoice workflow solutions are among the most cost-effective and efficient financial process automation tools in the market today. However, there is a great number of IWA solutions available in the market, and choosing the right one can be a daunting task. The following best practices are useful for organizations that want to select the most suitable and value-enhancing solution.

- **Cloud Vs. ERP Software:** Today's AP professionals are very familiar with the capabilities of common ERP systems like SAP, Oracle, and Microsoft Dynamics. If the professional's organization relies on the ERP for its native invoice automation software, they are also well-acquainted with the inefficiencies of ERP-native IWA applications.

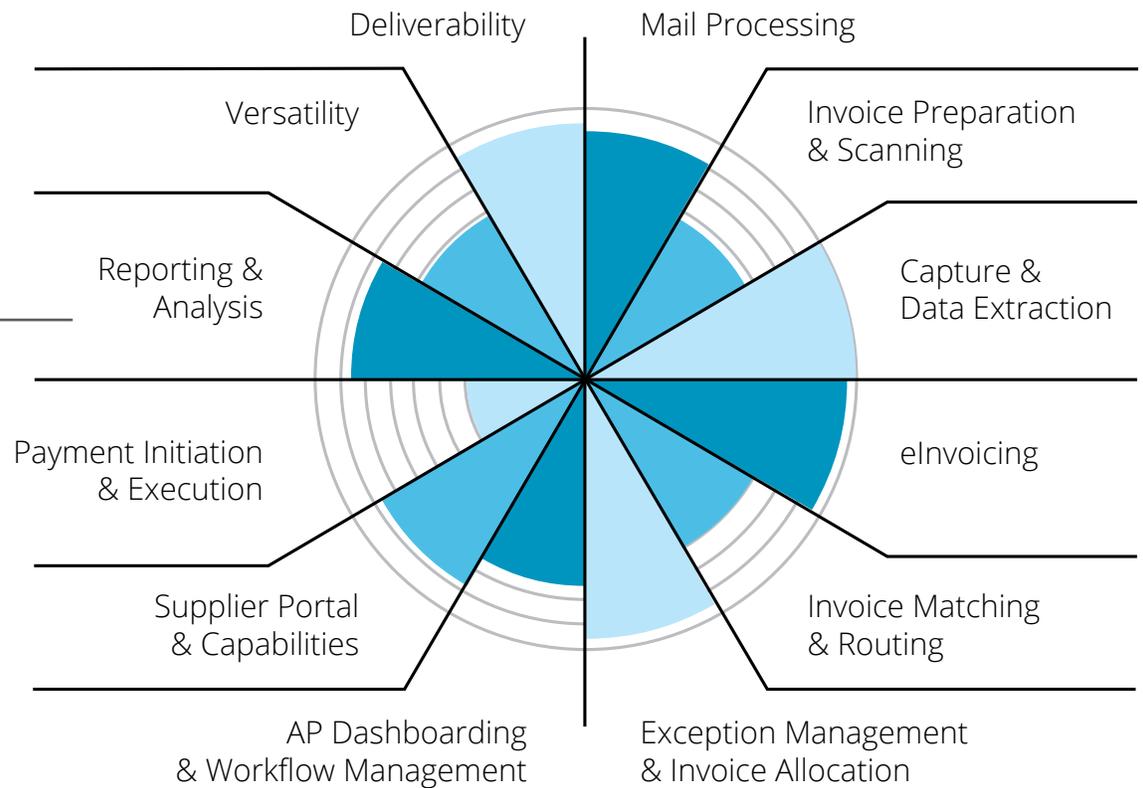
PayStream's research indicates that IWA solutions offered by ERP providers function much less efficiently than cloud-based, bolt-on solutions. When selecting an IWA solution, organizations that are heavily dependent on their ERP's applications should evaluate cloud-based offerings' abilities to integrate with their ERP. Leveraging a combination of appropriate, cloud-based solutions in conjunction with existing ERP processes can greatly improve organizations' invoice management.

- **Metrics:** One way to select an appropriate solution is to evaluate current invoice metrics, such as processing times and costs, supplier information, or business structures. When an organization fully understands its own unique business requirements, it is able to make a more secure buying decision. PayStream offers a variety of process measurement tools to help organizations identify areas for AP improvement and determine which solutions would best fit their needs. Appropriate tools for IWA solution selection include the Cost Per Invoice (CPI) Calculator and the Perfect Payment Index.
- **Invoice Automation Navigator:** Another effective selection strategy is to use PayStream Advisors' Invoice Automation Navigator (available in the [2015 Invoice Automation Navigator report](#)). This unbiased evaluation and scoring model was developed to promote and assist in a careful, informed solution selection process. The model scores AP automation solutions in twelve different categories on a scale of one to ten. Ten of the categories are a measure of functionality, while two categories— Versatility and Deliverability—

focus on solution breadth and customer experience. The visual representation of the Navigator is similar to a radar chart—the higher the score in a category, the closer to the outer ring the corresponding wedge will be, see Figure 5.

Figure 5

The Navigator Model



- **Peer Benchmarking:** Beyond the use of online tools and analytical reports, organizations can also learn about technology adoption from their peers. Attendees of PayStream Advisors' yearly learning conference, INNOVATE, are able to hear from leading organizations that have already overhauled their manual AP processes with automation. The focus of 2015's INNOVATE, held in New Orleans, Louisiana, will be on creating more cost and time efficient AP practices in changing economic and business environments. For more information, [click here](#).

The aforementioned adoption best practices not only promote a better purchasing decision—they also increase the possibility of timely and substantial ROI for organizations. With this in mind, PayStream invites readers to explore the following solution profile of a leading IWA provider.

OpenText

Founded in 1991 and based in Canada, OpenText offers a range of solutions for invoice automation. The company's products have extensive support and compliance tools for global B2B. These products include OpenText B2B Managed Services, OpenText Active Orders, OpenText Active Invoices with Compliance, and OpenText Vendor Invoice Management (VIM) for SAP Solutions. The OpenText service provides configurable business document process flows, and the eInvoicing solution includes legal invoice compliance with signed and archived PDFs.

Founded	1991
Headquarters	Waterloo, Ontario
Other Locations	Gaithersburg, MD
Number of Employees	8500
Number of Customers	100,000
Target Verticals	Manufacturing, Retail, Financial Services, Insurance, Public Sector, Life Sciences, Healthcare, Energy, Utilities, Media and Entertainment, Legal, Engineering and Construction
Partners/Resellers	SAP, Oracle, Deloitte, Accenture
Awards/Recognitions	"Leader" in Gartner Magic Quadrant for Integration Brokerage, April 2014

Solution Functionality

The OpenText B2B Managed Services and Active Orders solutions integrate directly with customers' ERP or legacy systems, transmitting and receiving documents to and from ERP service(s) via AS2 or other standard connectivity, such as FTP. OpenText solutions incorporate multiple levels of security, authorization, and authentication at user, data, and application module levels to restrict access to appropriately credentialed users.

OpenText Vendor Invoice Management is built as an ABAP add-on to SAP and offers a certified integration with SAP. OpenText VIM for SAP can be purchased from either OpenText or SAP.

OpenText's language support includes English, Portuguese, French, Italian, Spanish, German, Simplified Chinese, and Japanese. OpenText VIM supports country-specific business requirements (including tax handling compliance rules). In addition, the solution's OCR functionality supports out-of-the-box recognition for invoices from 32 countries, and basic support for an additional 70 countries.

Invoice Receipt and Validation

OpenText solutions accept invoices and other B2B transactions in a variety of formats. Suppliers can send electronic invoices in EDI or XML format or create invoices on the Active Orders web portal, either as standalone invoices or turnaround documents from an order. Suppliers can also send invoices in paper, email, fax, or photo formats. OpenText VIM supports both paper and email-based document flows and includes capture and data extraction capabilities.

OpenText Active Invoices with Compliance enables the client to send electronic invoices to their customers while ensuring compliance with country-specific eInvoicing regulations. This service can also be embedded within a complete Purchase-to-Pay automated solution. Its features include content validation, digital signature support, automatic invoice image creation, an electronic archive, and global customer enablement.

OpenText VIM's OCR component, Invoice Capture Center (ICC), automatically extracts data from scanned paper invoices, .pdf email attachments, or faxes. ICC uses internal data capture confidence levels to identify complete and incomplete invoice fields, and VIM reroutes failed invoices for completion when necessary. VIM also offers field-level matching based on business rules, as well as the ability to flip a PO to a validated invoice.

Approval Workflow

With VIM, invoice content triggers configurable approval workflow routing to the proper administrator, cost center owner, project manager, or business user. The solution also features exception management, which includes communication tools for thorough verification. These exception workflow triggers include tax issues, mismatches, duplicate invoices, price/quantity/data discrepancies, and coding errors. VIM also supports automated escalation procedures, out-of-office forwarding, and approval queues.

With AIC, all invoice images and related documents are stored in secure online facilities based on country security regulations. Customers can easily access this archive, which remains active for the number of years required by each country's regulations. This feature provides both buyers and suppliers with an audit trail of transactions.

Supplier Services

The OpenText network currently connects with over 550,000 companies. Through the Active Orders solution, OpenText delivers a supplier portal that features configurable dashboards, displays supplier invoice statuses, and offers direct invoice submission from multiple formats (EDI, PO flip, Web forms, etc.). The portal also includes buyer and supplier communication tools such as order tracking and acknowledgement, vendor-managed inventory, supplier dashboard views, shared status and data views, and shared event management.

With Active Orders and AIC, suppliers are usually onboarded through self-registration; they are emailed an invitation code that links them to predetermined services and entitlements. Once suppliers are registered and have portal credentials, they will only have access to services included in their invitation, and they can self-administer their account from there. In cases with expanded validation requirements, the additional solution components can be directly imported or configured in the portal by OpenText personnel.

Reporting and Analytics

OpenText Active Orders currently offers several standard reports, with a feature that allows users to create a custom PDF format for reports. Customers can also configure the UI portal for trading partners to support multi-document reporting in PDF and CSV formats. Active Orders also delivers business analytics with key indicators of supplier performance, allowing date-range searches through the data and detailed drill-down capabilities. VIM reporting uses SAP reporting tools.

Implementation and Pricing

Average implementation for the complete invoice automation solution is 23 weeks. Factors that impact the implementation timeline include client-side changes, supplier onboarding, document configuration volume, and other time and complexity considerations.

OpenText typically conducts a customer (buyer) internal training session for Active Orders and three recorded webinars for supplier training. OpenText also assigns a delivery manager to each customer to manage changes or issues, with 24x7 customer support. OpenText also offers e-learning and onsite training for VIM.

OpenText B2B Managed Services, Active Orders and AIC pricing includes an implementation cost and a recurring cost that is based on character counts in transaction documents. This cost covers management of the systems that enable the transactions and monitoring transaction flow. The Vendor Invoice Management solution for SAP is licensed based on invoice volume per year.

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.