

# Corporate Insights Report

## Efficiency & Cost Management in Accounts Payable:

### OnBase Imaging & Workflow Automation Solutions



*Navigating the Future of Financial Automation*

## Executive Summary

Businesses' emphasis on cost containment and productivity enhancement during the past few years has inspired accounts payable professionals to seek out new ways to automate traditionally paper-based, labor-intensive processes. The need to document and secure these processes to ensure compliance with the Sarbanes-Oxley Act of 2002 has provided further impetus, especially where senior management has been involved.

Our latest research indicates that businesses are turning to Imaging and Workflow Automation (IWA) solutions that streamline the invoice receipt-to-pay cycle to meet these new requirements for efficiency and control. Consider the results of our *2004 Financial Automation Survey* of Fortune 1000 finance, treasury, and accounting professionals:

- » 40.0 percent and 27.4 percent of respondents said that workflow tools and imaging and document management solutions respectively will be critical to their payables automation strategies for the next 18 months;
- » 30.1 percent and 27.4 percent of respondents said that they plan to deploy an imaging and document management or workflow solution respectively during the coming year.

This report is written for the 25 to 30 percent of survey respondents who are actively exploring IWA solutions. Beginning with an introduction to IWA, it describes the most common forms that solutions take and highlights the benefits that they deliver. It concludes with an in-depth profile of one of the top vendors in this space—Hyland Software—describing in detail Hyland Software's *OnBase*® solution and its approach to IWA.

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## Introduction

Several years of economic uncertainty and the passage of the Sarbanes-Oxley Act of 2002 have done wonders to raise the profile of accounts payable. As businesses have shifted their emphasis from growth to cost containment and productivity enhancement, accounts payable departments have come under renewed scrutiny for their reliance on costly and inefficient paper-based processes. At the same time, Sarbanes-Oxley has increased senior managers' focus on accounts payable by drawing their attention to the compliance risks inherent to manual, paper-based processes.

Our latest research suggests that these forces have sharply increased accounts payable professionals' interest in a rapidly maturing set of technologies that we call Imaging and Workflow Automation (IWA). According to our *2004 Financial Automation Survey* of finance, treasury, and accounting professionals, 30.1 percent of respondents expect their organization to implement an imaging and document management solution during 2004. Similarly, 27.4 percent of respondents believe that their organization will deploy a workflow solution to streamline approval processing this year.

### The Case for Accounts Payable Automation

People have dreamed of a paperless workplace for decades. In the 1960s, for example, futurists predicted that organizations in the new millennium would exchange information in a fully electronic manner. This sounds quaint from our current vantage point, but who knew that getting rid of paper would be more difficult than putting men on the moon? The unfortunate reality is that corporate processes remain mired in paper, and no one knows that better than accounts payable professionals.

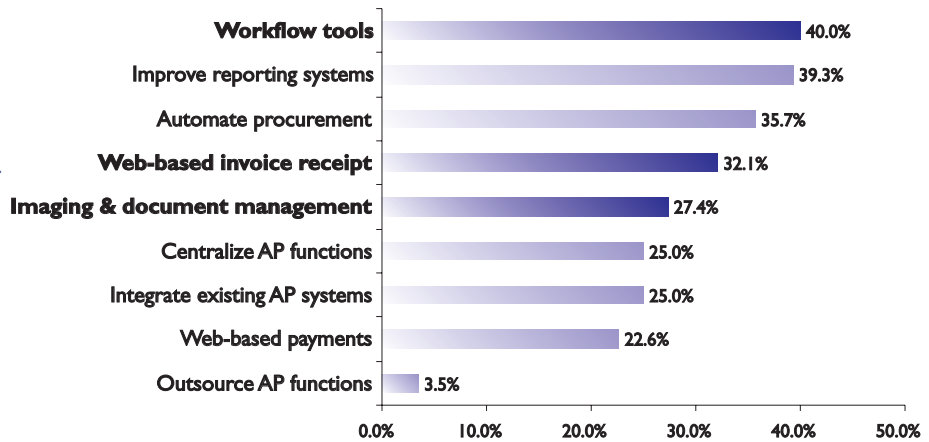
The results of our *2004 Financial Automation Survey* illustrate that accounts payable departments continue to experience problems at all stages of the invoice receipt-to-pay cycle. For example, the process of receiving and preparing invoices for processing—invoice receipt, matching, and imaging/data capture—causes significant pain to roughly one quarter of respondents. Pain increases as a transaction unfolds, building with approval processing and peaking at discrepancy resolution and exception processing. Access to invoice information and payment cause relatively little pain, reflecting the widespread availability of reliable, inexpensive payment options, as well as the persistent view that it is optimal to pay slowly.

The survey also revealed that accounts payable professionals have a keen interest in technology solutions that will streamline and automate some or all of these functions. Asked about the relevance of a range of technology tools and potential initiatives to their payables automation strategy, 40.0 percent of respondents said that workflow tools to automate approval processing are critical (see Figure 1). Solutions for Web-based invoice receipt and imaging and document management were close behind with 32.1 percent and 27.4 percent of respondents respectively deeming them essential.

However, to squeeze more paper from the invoice receipt-to-pay cycle, these solutions

FIGURE 1: CURRENT INTEREST IN IMAGING AND WORKFLOW SOLUTIONS

Respondents to our annual survey were asked to rate the importance of nine items to their organization's payables automation strategy for the next 18 months on a scale from one (not important) to five (critical).



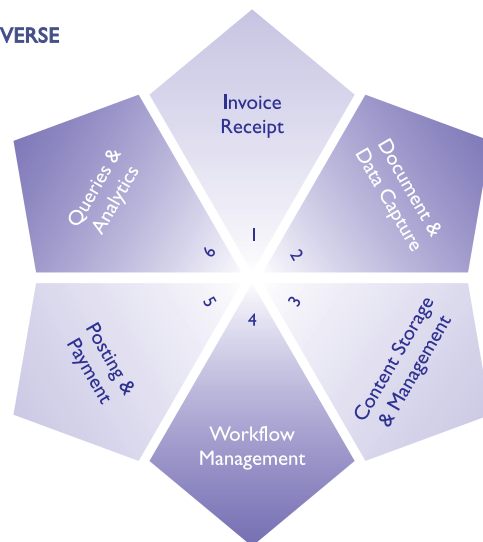
must overcome the challenge of converting invoices into standard electronic documents that enterprise and accounting systems can understand. In the past, the highly variable nature of invoices has made this impossible. Today, solutions are leveraging technology for processing so-called semi-structured documents to bridge this gap.

### What is Imaging and Workflow Automation?

Imaging and Workflow Automation (IWA) solutions streamline the invoice receipt-to-pay cycle by enabling organizations to convert paper invoices into digital images, store them in a Web-enabled repository for rapid retrieval, and extract data from them to enhance approval processing (see Figure 2). We define the components of the IWA universe as follows:

- » **Invoice Receipt.** The steps required to receive and prepare invoices for capture, including removing staples, repairing tears, photocopying small items onto 8 x 11 paper, performing initial data entry, and sorting (e.g. by

FIGURE 2: THE IMAGING AND WORKFLOW AUTOMATION UNIVERSE



IWA solutions improve the invoice receipt-to-pay cycle by streamlining how organizations receive, manage, and approve invoices.

source or cost center).

- » **Document and Data Capture.** The process of converting paper invoices and transaction-related documents, such as proofs of receipt, into digital images and index data including scanning, image enhancement, indexing, validation, and data extraction based on bar codes, Optical Character Recognition (OCR), Optical Mark Recognition (OMR), Intelligent Character Recognition (ICR), or manual data entry.
- » **Content Storage and Management.** Refers to the delivery, storage, management, and disposition of electronic documents and data. Depending on the complexity of the solution, this may include Enterprise Content Management (ECM) or Business Process Management (BPM) capabilities for managing the transactional content across its entire lifecycle.
- » **Workflow Management.** 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 (e.g. invoice approval), reminder messages, and escalation procedures based on approval hierarchies.
- » **Posting and Payment.** The steps to post approved transactions to the general ledger within an organization's Enterprise Resource Planning (ERP) or accounting system. IWA solutions do not extend to payment, but they do deliver critical transactional data into financial systems for the purpose of generating payments.
- » **Queries and Analytics.** The process of analyzing key invoice receipt-to-pay metrics. Queries & Analytics includes the generation of standard and ad hoc reports detailing invoices pending approval, unpaid invoices past due, average invoice processing time, and so forth. Supervisors can also monitor individual users' actions for quality control and load balancing.

## The Benefits of IWA

Accounts payable departments that utilize an IWA solution experience a wide range of benefits, depending on the type of solution they deploy. In general, they benefit in the following three areas:

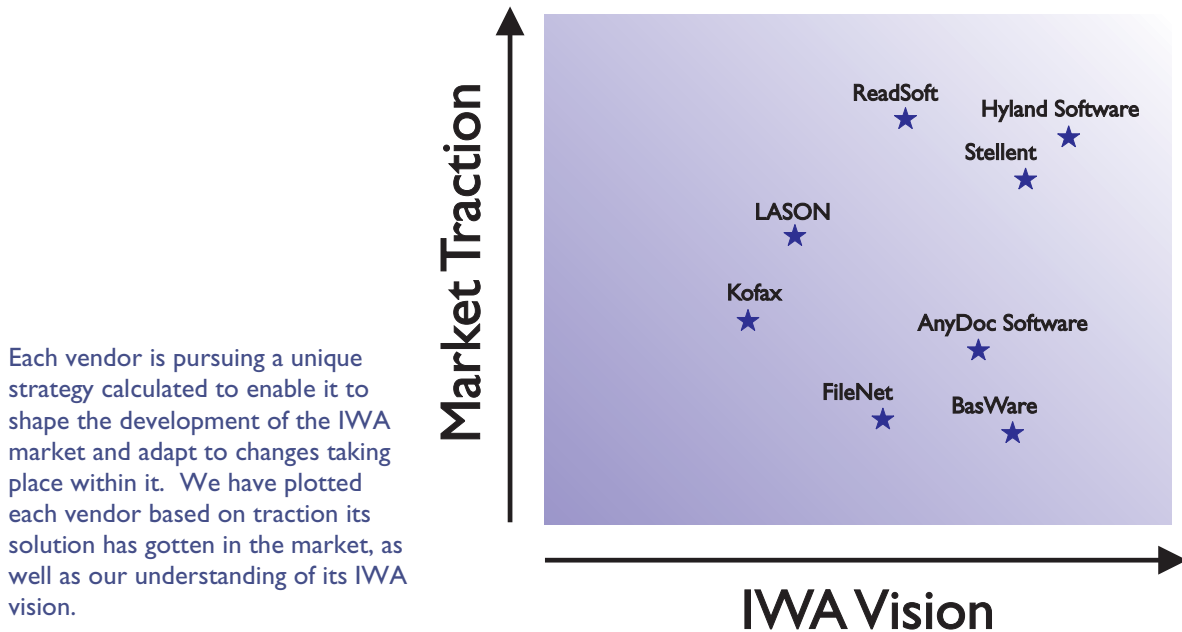
- » **Processing Efficiency.** Imaging and workflow accelerate transaction research, discrepancy resolution, and response times to supplier inquiries by allowing accounts payable staff to retrieve invoices from an electronic repository rather than a paper filing cabinet or archive. They contribute further to processing efficiency by removing paper at the point where it enters the organization. Invoices enter processing queues more quickly and their images can be used to accelerate their approval.

- » **Lower Costs.** First, IWA solutions drive down document storage costs by substituting electronic repositories for filing cabinets and effectively eliminating the need for long-term storage space. As the cost of electronic storage continues to fall, these savings will become more pronounced. Second, IWA solutions enable an accounts payable operation to trim its full-time equivalent (FTE) requirements. Third, IWA solutions provide a tool to eliminate late payment penalties and capture a higher percentage of prompt payment discounts.
- » **Enhanced Visibility and Control.** IWA solutions provide secure storage for invoices and support corporate policies and statutory requirements for document retention and disposal. Anytime access to invoice images facilitates reporting and analysis by eliminating the need for physical documents. In a front-end role, IWA solutions improve the speed and accuracy of decision-making by allowing users to access accurate, up-to-date information from any location using a Web browser.

### IWA Vision

Each vendor in the IWA space is pursuing a unique strategy to achieve its IWA vision, but how is each of them doing? To answer this question, we plotted seven vendors based on their IWA vision and the market traction that their solution has achieved (see Figure 3). We defined vision as the vendor's view of the long-term evolution, as well as the ideal state, of IWA processes and solutions. We measured market traction by the number of clients (i.e. distinct organizations) using or implementing its solution.

FIGURE 3: SOLUTION PROVIDERS: MARKET TRACTION VS. IWA VISION



## Hyland Software



### About Hyland Software

Founded in 1991, Hyland Software develops Enterprise Content Management (ECM) solutions for the financial services, commercial, and public sectors. Hyland Software's Web-enabled ECM solution—*OnBase*—provides integrated document, records, and business process management.

Consisting of more than 60 compatible modules for content input, management and integration, and distribution and output, it improves the way organizations receive, capture, share, process, and store information. Organizations can deploy *OnBase* at the department or enterprise level to streamline their operations and maximize information sharing among their employees, suppliers, and customers.

In accounts payable, *OnBase* increases operational efficiency and reduces costs by digitizing, standardizing, and automating customers' requisitioning, purchase order management, invoice receipt, approval processing, and customer service functions. Approximately 400 organizations use *OnBase* in their accounts payable departments, making it one of Hyland Software's most popular business solutions. Despite this enviable level of customer adoption, Hyland Software remains sharply focused on innovation and continues to strengthen its industry-specific solutions.

In addition to Accounts Payable, *OnBase* offers strong functionality for other back-office operation environments—including Accounts Receivable, Human Resources and Legal departments—which are paper intensive with manual policies and procedures. These departments can use *OnBase* to significantly reduce paper and storage costs, while streamlining business processes with point-and-click retrieval and automated workflow. Having achieved impressive adoption in Accounts Payable for its *OnBase* solution, Hyland is now targeting Accounts Receivable, which it considers a "typical" next step for companies deploying imaging and workflow automation solutions.

### OnBase

*OnBase* is an ECM solution that is capable of handling almost any type of content—from paper documents and faxes to HTML forms and video clips. *OnBase* is a single software platform that uses one relational database across all its modules. Customers are free to choose any of *OnBase's* 60+ modules they want to license and have the flexibility to customize its inter-

faces based on individual departments' needs.

### **Imaging and Recognition:**

Accounts payable departments can use *OnBase* to streamline their purchase-to-pay processes, beginning with requisition submission. Users can create and submit HTML requisition forms from their desktops or a corporate intranet using *OnBase E-Forms*. Completed forms are automatically captured, indexed, and stored as new documents in *OnBase*. *OnBase Workflow* routes these forms to the appropriate managers for approval, notifying them by email that requests are awaiting their review. *OnBase's* strength in this area is best seen in customers' ability to establish purchase amount thresholds and pre-defined routing for individual users.

Once requisitions are approved, *OnBase Workflow* routes them to the procurement department. Data is automatically taken from the requisition forms and entered into the customer's accounting or ERP system, eliminating the need for staff to double key information. Following the creation of purchase orders by the accounting or ERP system, *OnBase COLD/ERM* captures, indexes, and stores them in *OnBase* for delivery to vendors. Users can retrieve, print, email, or fax the purchase orders directly from their desktops and, if they are using *OnBase Application Enabler*, view them within the accounting or ERP application window.

*OnBase Document Imaging* enables accounts payable departments to capture, index, and store invoices and other transaction-related documents in an ad hoc or production environment. The module's distributed capture capabilities also enable it to accept invoices received and scanned by users in remote locations. Critically, for accounts payable departments seeking to streamline their purchase-to-pay processes, the system's integration with leading invoice capture software allows for automated invoice data capture and eliminates manual data entry.

### **Workflow:**

*OnBase Workflow* routes inbound invoices for approval based on the customer's business rules and can be configured to provide notifications of duplicate invoices, route invoices above a certain amount to particular staff, create and maintain approval timers, and perform workload balancing. Individuals can enter the *OnBase* system, access the payables queue, and perform tasks allowed by their user profiles. This empowers users to retrieve invoices with all supporting documentation and view entire transaction histories to make fast, accurate decisions.

Users' ability to access all of the documents pertaining to a transaction in real-time also enables accounts payable organizations to accelerate discrepancy resolution by reducing research times. Operating in a split screen view, *OnBase* users can track all of the invoices in their approval queue and examine individual invoice images by clicking on them in the queue. They can also call up the images of all supporting documents related to a particular transaction simply by double clicking on the image of the invoice that they are currently viewing. Further, by clicking an icon on their screen they can generate and email a form to the supplier involved in the discrepancy. The supplier can then log on to *OnBase* and provide information to resolve the discrepancy in order to complete the transaction history.

Finally, accounts payable departments can use *OnBase* to improve their supplier relationships.

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Staff fielding supplier inquiries can double click to pull up the invoices in question along with their supporting documents to provide accurate, immediate responses. Going one step further, customers have the option to grant their suppliers access to a secure Website where they can obtain real-time payment status and account history information. This provides the dual benefit of reducing supplier inquiries and increasing supplier satisfaction.

Hyland Software, with its network of partners, offers a full range of technical services—needs assessment, solution design, core installation, workflow consulting, integration services, custom development, project management, and training—to help customers deploy *OnBase*. Hyland Software and its partners apply industry-specific knowledge to individual clients' needs to accelerate this process. Overall, the implementation timeframe for *OnBase* depends on the type of solution the customer selects (e.g. imaging or full content management) and the systems it has in place. An average accounts payable solution takes roughly two weeks, exclusive of staff training time.

Accounts payable organizations can license specific *OnBase* modules to achieve the functionality they desire. The client seats that provide access to that functionality can be licensed on a workstation (i.e. named user), concurrent, or mixed basis. Client licenses range in price, with organizations choosing to leverage *OnBase*'s workflow capabilities paying an additional charge on top of these core licenses. In both cases, Hyland Software offers volume discounts and enterprise licensing plans. Overall, a Web-based system supporting concurrent user access for imaging, workflow, document management, and enterprise report management would cost roughly \$85,000 for 50 users up to \$230,000 for 250 users. Annual maintenance and round-the-clock support add 18 percent to the solution list price.

## Outlook

Hyland Software has gained impressive market traction with some 400 organizations in paper-intensive industries like financial services, healthcare, insurance, manufacturing, and transportation using *OnBase* for their accounts payable operations. It is easy to understand why organizations as diverse as Chiquita, Greif, Inc., and Timken have turned to Hyland for help automating their purchase-to-pay processes. *OnBase* offers end-to-end functionality that they can deploy in manageable chunks to meet specific needs, as well as interfaces that they can configure to meet department or user preferences. Businesses are also realizing that *OnBase* helps support Sarbanes-Oxley compliance by strengthening internal controls and lowering audit times for controls that are manually intensive and weak from a control perspective.

*OnBase* shines in the area of discrepancy resolution. Our research consistently shows that up to 20 percent of invoices contain discrepancies that can cost as much as \$35 to resolve. *OnBase* addresses this problem in part by giving system users the ability to access all of the documents related to a transaction with a few mouse clicks. It also recognizes the central role that suppliers play in the process, enabling them to receive email notifications of discrepancies, log on to the *OnBase* system, and provide information to resolve the issue. Suppliers also have the ability to access payment status and account history information—an important benefit, given how highly suppliers prize visibility and predictability. These characteristics confirm our view that *OnBase* is well-suited to a wide range of ECM needs.

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### Case Study : Greif, Inc.

Greif, Inc. is a \$2.2 billion manufacturer of packaging solutions based in Delaware, Ohio. Throughout its 125-year history, it has offered a full line of steel, plastic, fiber, and paper containers and packaging materials to companies of all sizes. It also provides value-added services, such as container lifecycle management, logistics, warehousing and inventory management, research and development, and graphics and printing. Today, Greif operates more than 170 facilities in over 40 countries.

Greif's path to IWA began with its acquisition of two industrial packaging companies in 1998 and 2001. These strategic moves doubled Greif's size, reach, and competitive position, but also decentralized its operations. In response, Greif adopted Baan as its corporate ERP platform, while some plants used BPCS and steel plants used Amtech. Greif also consolidated its accounts payable and receivables operations into a single processing center. Inadvertently, these steps fostered a large and inefficient accounts payable operation that soon became a source of concern.

At issue was Greif's fragmented system for processing invoices from its 12,000+ suppliers. Mailroom workers at each plant prepared raw material and MRO invoices for processing by grouping them into payment packets with their purchase orders and receipt documents. Other workers photocopied the documents, filed them on-site, and batch mailed the originals to headquarters for processing. In the case of MRO invoices, a manager also approved each invoice prior to its submission. Once received at headquarters, accounts payable operators entered the invoice information into Baan—first keying in the data, and then verifying it for accuracy. The invoices were then sent to an outside provider for scanning and archival. When Greif received the images back, another operator entered document ID numbers and key words to populate Baan with critical data, such as the invoice amount.

Eager to reduce the cost of processing the 225,000 invoices it receives annually, Greif established a project team in 2002 to explore potential solutions. Intrigued by the possibilities of OCR and workflow, the team invited several AP system integrators for discussions. After due diligence, Greif chose Results Engineering, an authorized *OnBase* solution provider, to provide an IWA solution that would combine AnyDocINVOICE for front-end document and data capture with *OnBase* for workflow with Results Engineering's AP tools (REAP).

A process engineering, involving a plant controller from each line of business, central AP and IT, spent a month documenting the current processes by plant and system and another month reengineering the new workflow design to fully leverage the automated capture and workflow functionality and to develop a detailed system design and project ROI. The completed solution including the Storage Area Network, servers, scanners, software and services took three months to develop and test. The solution went live in July 2003 at over 60 plants simultaneously and reached full production status in January 2004.

A completely Web-based interface coupled with online help and interactive Web training made the transition from paper to electronic processing simple and painless for employees.

Additionally, the use of REAP enabled Greif to integrate multiple accounting, ERP, inventory, point of sale, EDI and trading networks, imaging and workflow tools into a unified system allowing the real time integration of Greif's Baan, Amtech, AnyDoc and *OnBase* workflow systems.

Now, users in any of the plants enter MRO purchase requisitions into REAP and allow the plant-specific systems of AMTECH, BPCS and Baan to handle raw material orders for manufacturing. When the invoices are received centrally, they are scanned into AnyDocINVOICE which uses key words—not templates—to extract data from the scanned invoices. AnyDoc then reads the data and uses REAP's middleware to verify the data across the multiple accounting systems. It looks for a purchase order to verify the supplier, and then populates key fields like supplier address, purchase order number, date, invoice amount, and payment terms.

Questionable results are verified by an operator and then committed into *OnBase*, which routes tasks based on Greif's business rules. For instance, about 60 percent of invoices read by AnyDoc pass a 3 way match process in *OnBase* workflow between the purchase order, invoice and receipt, and then the invoice is routed into Baan for automatic payment without human involvement. Non-PO invoices are routed automatically to the plant for approval. Problem invoices are routed into the appropriate queue for resolution. *OnBase* workflow also manages all Wires and ACH transfers as well as tax and currency issues. Greif has also leveraged *OnBase* to create special approval flows (e.g. to review capital expenditures, legal bills) based on accounting coding in an intelligent XML form in REAP. Short-term image storage and archival is provided by an IBM Storage Area Network that is backed up to tape each night, while long-term storage consists of a CD archive.

Greif's solution has already generated impressive results. According to John Ries, Corporate Financial Processing Director, Greif has achieved better than 99 percent accuracy scanning invoices. At the same time, labor requirements have declined from twenty-seven people to four. These headcount numbers are even more impressive when one considers the elimination of the external labor at the outside scanning and freight bill audit services. Mr. Ries estimates that Greif will save \$1,050,000 annually by reducing its mail, scanning, archival, and labor costs. Now, in a ringing endorsement of Results Engineering, AnyDocINVOICE and *OnBase*, Greif extended AnyDoc and *OnBase* Workflow to include freight bills data extraction, automated auditing and payment processing resulting in an additional savings of \$175,000 through the elimination of the outside freight bill processor and improved freight audit results.

## Conclusion

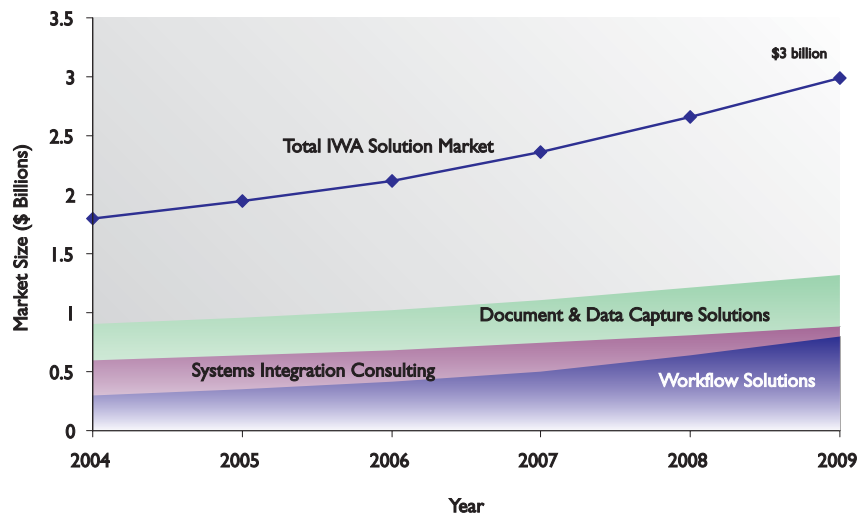
The market for IWA solutions will grow rapidly over the next five years. Worldwide spending on IWA solutions in accounts payables functions will increase from \$1.98 billion in 2004 to \$3 billion by 2009, a compound annual growth rate (CAGR) of 10.7 percent (see Figure 4). During this five-year period, spending on document and data capture and workflow solutions will increase at a CAGR of 7.9 percent and 21.6 percent respectively.

Accounts payable departments' share of the current \$7.7 billion IWA pie, while small today, will expand as organizations adopt IWA solutions to achieve their payables automation objectives and adapt to changes in the regulatory environment (i.e. Sarbanes-Oxley and Check 21). The following four factors will also shape the evolution of the IWA market:

- » **Advanced OCR will be a catalyst for adoption.** Solutions that rely on template-based OCR to find and extract data from invoices have experienced mixed success. Sufficient for an accounts payable department that receives invoices in a just a handful of formats, they are inadequate for high-volume operations that see a myriad of formats every day. As a result, the application of IWA concepts to improve invoice management has suffered. In the future, industrial strength solutions that use full-page OCR to extract data without templates will be the key that unlocks adoption.
- » **Front-end solutions will prevail.** IWA 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

FIGURE 4: FORECASTED GROWTH OF THE WORLDWIDE IWA SOLUTION MARKET

The world market for IWA solutions in AP will increase at a compounded annual rate of 10.7 percent over the next five years. By 2009, total spending will top \$3 billion.



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 IWA solutions in both a back- and front-end capacity, but the latter will eventually prevail.

- » **Multiple solution models will co-exist.** There is not a single model for IWA. Solutions are available in software form, as well as on an outsourced basis. Likewise, some vendors emphasize a modular “mix-and-match” approach while others concentrate on providing a set solution. 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 IWA functionality as part of a larger ECM or BPM offering. Industry consolidation notwithstanding, this diversity will continue.
- » **IWA and Web invoicing will cross-pollinate.** IWA solutions have evolved to meet organizations' internal needs around invoice receipt and management. As the Internet expands into all corners of business communication, however, the distinction between internal and external breaks down. This is already affecting IWA, thanks to the rise of Web invoicing solutions that provide similar functionality and are explicitly designed to facilitate buyer-supplier collaboration. Both types of solutions will flourish for years to come, but cross-pollination is bound to occur. Ultimately, accounts payable departments will benefit from this process as IWA solutions incorporate better options for invoice receipt, approval processing, and discrepancy resolution that provide both control and collaboration.

## 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 financial automation with the goal of making objective, analytical, and actionable recommendations. Our clients include leading companies in the financial services, oil and gas, telecommunications, and waste management industries. Wherever financial automation technology is an issue, PayStream Advisors is there to help. For more information, call (704) 523-7357 extension 222 or visit us on the Web at [www.paystreamadvisors.com](http://www.paystreamadvisors.com).