

SEP

Supplier Electronic Payments

Understanding Business-to-Business Payment Automation Solutions

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Report Coming in April 2008

Introduction

In the world of e-commerce, financial systems can be a lot like the proverbial “red-headed stepchild” – neglected unless there’s a problem and the last to benefit from upgrades and enhancements. To be sure, the very idea of upgrading or modifying these systems can be daunting. They’re often comprised of several standalone legacy systems. And because they’re so vitally important to on-going business operations, the downtime can be devastating.

It is not surprising then that the growth of Web invoicing and electronic payments solutions has been less than spectacular. Industry research suggests that many larger corporations have more than a dozen financial systems that co-exist without communicating with each other. And while that may have been sufficient in the past, today’s never-ending push for improved productivity, efficiency, customer satisfaction, and financial results puts those financial systems and the processes that surround them under increased scrutiny.

That heightened visibility has led to a growing awareness among financial managers that things are changing, with or without their approval. Accounting transactions, like so many other manual tasks, can easily and cost-effectively be automated or outsourced offshore. Either one can deliver tangible results around cost savings and processing efficiencies. But automation and the rich data associated with it provide a real opportunity to add value to the corporation. Staff can be realigned into more strategic roles where they can analyze information and use the results to improve cash flow.

We’ve created this white paper to provide an overview of the supplier electronic payment solutions available today. Our hope is that potential buyers in the accounting and purchasing areas will find it helpful in evaluating solutions that reduce costs and enhance performance.

The full report, including in-depth vendor profiles, *Supplier Electronic Payments: Understanding Business-to-Business Payment Automation Solutions*, will be released in April 2008. A companion report on *Web Invoicing & Electronic Payments*, featuring profiles of 10 leading vendors, is available on our website at <http://www.paystreamadvisors.com/store/details.cfm?id=240>.

Supplier Electronic Payments is one of many reports in our corporate research library, available at www.paystreamadvisors.com including

- Web Invoicing & Electronic Payments: Strategic Impact of AP Automation.
- Imaging & Workflow Automation: Using Imaging Technology to Improve Business Practices.
- Electronic Procurement: Automation Options for your Purchasing Processes.

Building a Case for Automation

Technology proponents often have a difficult time making a case for saving money with technology because the actual cost of doing business the old way is not apparent. Too many accounting departments continue to do business the way they have for decades, with little idea of the true costs involved.

PayStream Advisors estimates that labor is responsible for 75 to 80 percent of invoice processing costs. It's easy to see why, given the time that must be spent:

- Receiving and sorting the invoices.
- Entering data into ERP/accounting systems.
- Correcting manual data entry errors.
- Manually routing the invoices for approval or dealing with matching errors
- Talking to or answering e-mails from suppliers who have questions about an invoice.
- Locating invoices and researching questions.
- Creating and mailing paper checks.
- Managing payment disputes.

Since companies must also keep copies of these financial records for audit and tax purposes, they further incur the cost of storing and securing them.

Another significant – yet often secret – cost of manual processing is the lag in payment time. Larger companies, processing high volumes of invoices, may take three to four weeks or even more to complete the processing cycle. That delay can cause them to lose trade discounts as well as interest on the money that could have been invested during that time.

In addition to addressing the challenges associated with manual processes, electronic invoicing and payment applications can offer:

- User-friendly programs that require little training.
- Faster invoice processing with fewer errors.
- Ability to easily accommodate additional volume.
- Less time spent answering phone calls and e-mails since suppliers can view transactions online.
- Improved capture of early payment discounts and the ability to increase discounts offered by suppliers.
- Online dispute management.

Barriers to Adoption

Until recently, the most prevalent barriers to adoption concern electronic payment applications' ability to easily and cost-effectively:

- Integrate with existing A/P, A/R, billing, cash management, supply chain, and other legacy systems.
- Maintain adequate security via encryption, digital certificates, and user authorization/authentication.
- Provide reliable backup systems with a minimum of downtime.
- Handle returns processing, dispute resolutions, credit and collections, paper transactions, and other day-to-day functions.
- Demonstrate ROI when there are few manual processing metrics available for comparison.

However, state-of-the-art applications available in the market today that integrate seamlessly with back-end systems and provide secure data transfer protocols are enabling companies overcome their initial resistance to automation. Most applications integrate easily with ERP and other financial software on the buyer and supplier sides, resulting in secure and seamless data transfer, as well as streamlined processes and more efficient workflow. Users can expect faster approval and cycle times, as well as better cash flow forecasting ability, and vendor relationships.

And for those companies concerned with the upfront costs of technology solutions, Hosted options offer low or non-existent implementation costs, with vendors responsible for maintenance and upgrades. Last, but certainly not least, given the current emphasis on going green – electronic payments offer a substantial environmental impact. They save trees and energy, while reducing air pollutants and solid waste.

As with any emerging technology, there are a variety of electronic payment options and solutions available. Some will be more appropriate than others in a given situation. Before beginning any serious system evaluation, it's important to perform a benchmark analysis to determine what the current capabilities are relative to best in class, followed by a good requirements analysis to determine how the company can close the gap.

Further, pricing for electronic payment solutions can vary widely, depending upon the type of application and the way that it's sold. Costs may include implementation charges (normally not necessary with hosted applications), as well as fees for maintenance, monthly subscriptions, software licensing, and ACH, wire, and check transactions. Transaction fees are often discounted for high-volume users.

The SEP Universe

Supplier electronic payment is just one component of the larger Financial Supply Chain or Web Invoicing universe, which in the broadest sense, includes the ability to:

- Send purchase orders electronically to suppliers from procurement systems.
- Receive invoices electronically from suppliers' billing systems.
- Validate invoices at the time of submission and communicate errors back to suppliers in real-time.
- View invoices through a secure portal and route them for approval as needed.
- Process and deliver payments electronically to suppliers along with complete remittance information.
- View invoice and payment status in real-time through the portal.

PayStream Advisors defines the Supplier Electronic Payments universe as comprising of the following functional components.

Supplier Enrollment and Enablement

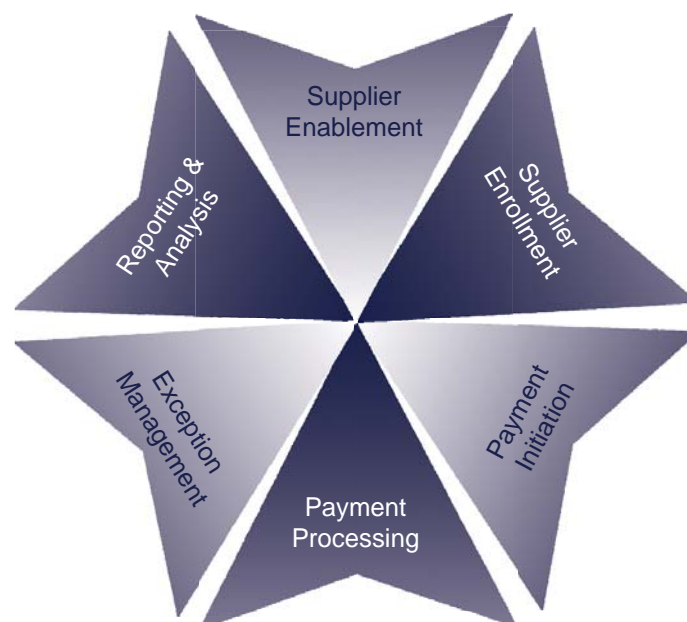
Not surprisingly, supplier adoption is key to the success of any electronic payment program. In best case scenarios, the application and its supplier network:

- Offer seamless functionality and a quick, easy, and painless online on-boarding process.
- Support many-to-many relationships, allowing suppliers to invoice multiple buyers at the same time.

Figure 1

SEP UNIVERSE

SEP solutions streamline and optimize the invoicing and payment process and delivery tangible results around processing efficiencies, cost savings and working capital improvements.



- Provide additional services, such as recruiting suppliers for dynamic discounting and segmentation analysis for data interpretation and identification of high spend suppliers who may offer significant early payment discounts.

Electronic payments solutions offer functionality to allow suppliers to enroll themselves by logging into the application to provide bank account and registration information. Alternatively, buyers can manually enter supplier information or import the same from their ERP or AP systems. In some cases, vendors go a step further to authenticate the bank account information provided by suppliers before payments are initiated, either by verifying a cancelled check or by directly calling the supplier's bank.

Invoice and Payment Processing

Applications typically offer the ability to generate invoices in multiple formats, including EDI 810, comma-delimited file formats, XML and more. Likewise, multiple payment methods, such as purchasing cards, checks, ACH, wire transfers, and credit cards, are available. This interactive invoicing, with its online view of invoice and payment status, immediately eliminates many customer support calls for a rapid return on investment.

Early payment discount opportunities also provide an opportunity to improve cash flow. Additionally, applications are flexible to allow suppliers to discount all invoices at a time or on an individual basis or decide not to discount at all and receive payment on terms.

State-of-the-art applications allow:

- Buyers to send purchase order information, captured from ERP or procurement systems, to suppliers in EDI, XML, CSV, and other file formats.
- Suppliers to use a "PO-flip" function to create and submit purchase order acknowledgments and advance shipping notices.
- Consolidation of all payment processing and transaction information enterprise-wide, including sophisticated multi-bank reporting for a single view of cash balances.
- Real-time validation at the point the supplier submits the invoice.
- International payment capabilities and support for multi-lingual characters.

Exception Management

Validation of invoices is a critical step to ensure that only clean invoices are viewed by the AP department, thereby reducing the amount of time spend on resolving exceptions. Invoices are routinely checked for duplicity and mathematical integrity. An additional layer of validation is provided by checking invoices against a set of buyer-defined criteria.

This process identifies errors and exceptions in the invoices proactively at the time of invoice submission itself and notifies the infringing party to correct those errors before the invoice can be accepted and routed. These validation rules and tolerance levels can be configured and changed, as needed, by buyers based on a number

of parameters including supplier category, type of spend, geographic locations and dollar thresholds.

Online exceptions can be managed by allowing the creation of credit and debit memos to resolve line item disputes, with explanations documented in electronic notes that remain a part of invoice records. Many applications provide an alert feature to notify vendors when items are disputed or rejected.

Reporting and Analytics

All applications offer some degree of reporting capability, through standard templates and ad hoc, user-defined report creation. Information is pulled from invoice transactions, vendor masters, purchase orders, payments, cycle times, discounts, vendor groups, invoice capture methods, payment histories, cash flow forecasting, and vendor enrollment activity, among other sources. Reports can usually be exported in Crystal Reports (RPT), Adobe Acrobat (PDF), Word (DOC), Excel (XLS) and Rich Text (RTF) formats.

More robust applications can also provide audit trails and SOX compliance information by maintaining logs of user interactions with the system, including system changes, report requests, and user, transaction, event, and alert activities.

Selecting an SEP Solution

For most buyers, cost will be the initial consideration. As noted earlier, fees vary by provider and by type of solution. Integrated software suites may require large investments upfront, while hosted, Web-based applications may charge only transaction and/or maintenance fees. The budget conscious need not worry, for the marketplace is full of reasonably priced, feature-rich offerings.

Whatever the price range, it's important to select a vendor based on how well its product matches specific organizational and technical needs. A few things to consider:

- **Features** – What features does the solution offer? How large is the vendor's supplier network? How easy is it to add suppliers? What payment options are offered? Is dynamic discounting an option? Are best practices supported? Is an online demonstration available?
- **Compatibility** – Does the solution integrate easily with ERP and other internal systems? Will it link to banking and cash management applications? Will there be a major change to workflow and processes? Will hardware need to be replaced or upgraded?
- **Implementation and Training** – How long does implementation take? What costs are involved? Is training done by online demo, in-person on-site, or off-site? How long is the learning curve?
- **Security** – How secure is the application? Is there an off-site backup facility? How often is data backed up? What happens in the event of a power outage or weather emergency at the vendor's site? What is the system's average downtime over the past year? With what standards are they compliant?
- **Technical Support** – Is telephone support available 24/7? If not, then when? Is online help provided? Is e-mail support offered? What is the turnaround time for a response? FAQs? Manuals? On-site help?
- **Customer Satisfaction** – Existing customers are a wonderful source of information. Have costs remained reasonable over time? Have they had problems with a vendor? If so, what kind? How were they resolved? How long did resolution take?
- **Reputation and Stability** – How long has the company been in business? How long has it been providing e-payment solutions? What part of its revenue comes from this area? Does the provider service the U.S. only or is it worldwide (a consideration for global companies)? How does the vendor plan to enhance its offerings in the future? Is the company likely to remain in business? Is it a takeover candidate?

Key Insights: What You Should Do Now

Strong Case for Automation:

There is a strong business case for payment automation. The documented productivity and working capital benefits of invoice and payment automation technology offer a compelling reason for consideration as well as a very tangible ROI for both medium and large enterprises.

The March is ON:

PayStream Advisors' has determined that while one out of three organizations has already implemented some payment automation technologies, few have addressed the entire invoice-to-pay process. Clearly these businesses have much more work to do, not to mention the other two-thirds of companies that have yet to implement any electronic payment technologies.

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 electronic payment 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 addressing the payment automation landscape. As a result, opportunities are regularly being missed both in terms of process improvement and solution selection.

Don't Fall Too Far Behind:

Companies that rely on traditional invoicing and payment practices, which are burdened by many inefficient, manual tasks, will find themselves at a competitive disadvantage to companies that have automated payment, and that can therefore better manage their vendor relations, capture early payment discounts and can control working capital requirements at all levels.

Leverage PayStream's Technology Insights Report:

PayStream's Technology Insight Series report on Supplier Electronic Payments delivers valuable insights to organizations that need help identifying vendors and solutions for further investigation.

What to Expect in the full report:

- Building a business case for procurement automation - key drivers and benefits of electronic payments and overcoming the barriers to adoption.
- The electronic payment universe - overview of functional components offered as part of an e-payment solution.
- 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
- Market considerations - where is the market headed and how are the vendors tackling the evolving market.

Listing of Featured Vendors

Following is a list of key players in the SEP marketplace. You can read in-depth profiles of the featured vendors in the comprehensive Technology Insight Series report, and learn more about all these vendors in PayStream's Software Info Source.

Name/Website	Sales Contact	Company Description
American Express www.aexp.com	Tanya Anderson tanya.d.anderson@ aexp.com (212) 640-0747	American Express is a global travel, financial, and network services provider with operations in more than 120 countries. Its suite of B2B products and services include business travel, meetings management, purchasing cards, corporate cards, and other expense-related payment solutions. In March 2007, after its acquisition of Harbor Payments, American Express launched its EIPP solution, which is built on an existing Harbor Payments product.
Ariba www.ariba.com	Ashish Deshpande AsDeshpande@ ariba.com (650) 390-1536	Ariba has been providing spend management solutions for more than 10 years. The company boasts the largest Supplier Network in the industry, encompassing more than 250 buying organizations. These include several blue-chip companies that conduct business with more than 155,000 suppliers. The network grosses \$90 billion in annual spend, drives \$16 billion purchase orders annually, and is shared by suppliers in 115 countries.
Bottomline Technologies www.bottomline.com	Billy Balfour bbalfour@ bottomline.com (603) 501-5219	Bottomline Technologies provides solutions that automate processes and transactions involving global payments, invoice approval, collections, cash management, and document processing. The company boasts an international client base of more than 9,000, including 65 of the Fortune 100 companies and 80 of the FTSE (Financial Times Stock Exchange) 100 companies. Citibank, Bank of America, Fidelity, Capmark, and John Hancock are representative customers.
JPMorgan Xign www.xign.com	Chris Rauen Chris.Rauen@xign. com (925) 251-4514	JPMorgan Xign has been involved in business payments and financial settlement for more than seven years. As Xign Corporation, the company was among the first to deliver an Internet-based B2B electronic payment solution, since expanded to include integrated electronic order delivery, invoicing, and early payment discount management services. Xign's success resulted in its acquisition last year by JPMorgan Chase. The company now known as JPMorgan Xign counts more than 80 buying organizations and tens of thousands of global suppliers as participants.
Visa www.visa.com	Nick Marchetti nmarchet@visa. com (650) 432-2471	Visa is one of the nation's leading brands and payment alternatives, offering a reliable, secure, and scalable payment network that includes 27 million acceptance locations and more than 13,000 financial institutions that (along with other resellers) sell Visa products directly to corporations and merchants. Visa can process 12,000 transactions per second and handled 45.5 billion transactions in the twelve months that ended March 31, 2007.

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 Analysts

Tina Harlan is a writer and editor who has worked extensively with financial services, insurance, information technology, and healthcare clients. She specializes in white papers and case studies, as well as technical, corporate, and marketing communications.

Joe Doughty is a contract consultant and project manager for PayStream Advisors specializing in process improvement and financial process automation. He has seven years of corporate treasury operations experience, ranging from cash management to capital market transactions. Joe earned his MBA from the Kenan-Flagler Business School at the University of North Carolina and holds the Certified Treasury Professional, Chartered Financial Analyst, and Financial Risk Manager designations.

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Recovery Audit Services/Solutions
Supplier Electronic Payments
Contract Management/Payment Review

- Free, Online Service.
- It's built upon PayStream's proven, in-depth research.
- Receive a CUSTOM Buyer's Guide packed with industry trends, selection tips, and in-depth solution profiles of qualified vendors.