

Deploying Emerging Technology to Improve Remittance-Details Processing

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INTRODUCTION

Companies' treasury areas are increasingly responsible for or strong influencers of receivables processes. This is due to the impact that receivables have on working capital management, a primary accountability for treasury. At many companies, treasury perceives straight-through processing (STP) as a goal that will optimize receivables processes. When businesses pay other companies' invoices, they frequently combine more than one invoice in a single payment, take discounts (authorized or not), and/or make other adjustments to the payment amount (overpayments for resolved previous deductions or underpayments for disputed items), resulting in discrepancies between the invoiced and payment amounts. These amount differences tend to derail STP, delaying invoice settlement and cash posting and creating challenges for working capital management.

Parascript and Aite Group believe that recognition technology developed and applied by Parascript to fraud prevention for checks and forms processing can improve STP rates for companies' receivables processing and cash application. In particular, this technology does the following:

- Automatically recognizes document types by look and content, whether static or variable in position
- Recognizes and captures any image, including hand-written cursive or print by intelligent character recognition and machine print by optical character recognition
- Parses data from electronic documents such as Word, PDF, and email text and provides it in an industry-standard format
- Exports data in a common format for upload or download to other systems for further processing or reporting
- Automatically routes data for validation and then uploads it as a standard file

To determine the challenges that middle-market companies experience with business-to-business (B2B) receivables and cash application as well as the improvements they could obtain by deploying Parascript's capabilities, Aite Group conducted a survey of end users. This white paper summarizes the findings of that survey and provides receivables managers and experts with general points of reference regarding current processing abilities and improvement opportunities at companies of comparable size. Banks' receivables product and operations managers will benefit from a better understanding of the receivables processing needs and desires of middle-market companies and acquire general perceptions of select banks' perspectives on the proposed technology. This information informs strategies and tactics regarding investments in receivables solutions for companies and financial institutions.

METHODOLOGY

During March and April 2013, Aite Group conducted 15-minute telephone surveys with 60 receivables experts at **U.S.-based middle-market companies (revenue of US\$50 million to US\$500 million)** to gather the quantitative data reported in this white paper. The margin of error for this data is 12.5 points at the 95% level of confidence and 10.5 points at the 90% level of confidence.

Other data included in this report come from another Aite Group survey, an online webinar registration poll, and a webinar poll. These data focus on **U.S. midsize companies (revenue of US\$10 million to US\$500 million)**.

This report is partially based on a National Automated Clearing House Association (NACHA)-commissioned Aite Group survey (and resulting remittance benchmarking study), which collected data from 240 U.S.-based companies of all sizes (90 payables managers or experts and 150 receivables managers or experts) in Q1 2012. That data informs a few of the figures and tables in this report.¹ Of those responses, the responses of 90 midsize companies' payables and receivables managers/experts are analyzed herein and compared with the other responses. One-third of the midsize-company respondents are from the payables discipline, and two-thirds are from receivables. Aite Group used telephone surveys of about 20 minutes in length to gather information regarding payments and receivables processing volume and challenges, roles of trading partners, and decision criteria regarding delivery channels for payments and related remittance details. The data reported have a 6-point margin of error at the 95% level of confidence, and tests of significance between groups have been conducted at the 90% level of confidence.

Data were also gathered from 61 midsize company attendees in a September 2012 Aite Group webinar.² Given the size of the research sample, the data provide a good directional indication of conditions in the market.

Additional data is provided from a survey conducted by the Federal Reserve Bank (FRB) of Minneapolis for the Remittance Coalition,³ in which Aite Group has participated since the coalition's inception. The FRB hosted an online survey tool to gather responses from members of the Association of Financial Professionals (AFP), Credit Research Foundation (CRF), Institute of Financial Operations (including IAPP, IARP, TAWPI), National Association of Purchasing Card Professionals (NAPCP), and Association of Small Business Development Centers (ASBDC). Each of these organizations sent email invitations to their members to participate in the survey, and a total of 662 respondents from companies of all sizes answered at least part of the survey.

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1. See Aite Group's report, *Remittance Details: When and How They Arrive for U.S.-Based Companies*, July 2012.
 2. Optimizing Working Capital Using Receivables Best Practices, September 12, 2012.
 3. The coalition defines itself as follows: "The Remittance Coalition is a group of organizations and individuals interested in working together to promote more use of electronic B2B payments and electronic remittance data ... by addressing various problems that make it hard for businesses to use electronic payments and remittance data."

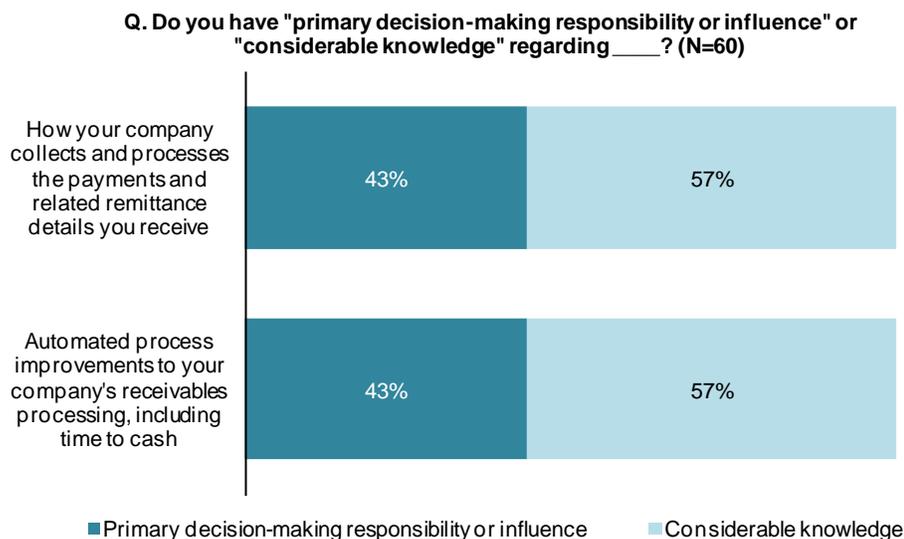
RESPONDENT ATTRIBUTES

AITE GROUP SURVEY OF MIDDLE-MARKET COMPANIES

To qualify for Aite Group's survey of middle-market companies, respondent companies had to issue a minimum of 1,000 invoices per month to other companies. Further, their annual revenue had to fall within the middle-market company definition of US\$50 million to US\$500 million in assets. Each respondent also had to respond positively to both of the following questions (Figure 1):

- Do you have "primary decision-making responsibility or influence" or "considerable knowledge" regarding how your company collects and processes the payments and related remittance details you receive?
- Do you have "primary decision-making responsibility or influence" or "considerable knowledge" regarding automated process improvements to your company's receivables processing, including time-to-cash?

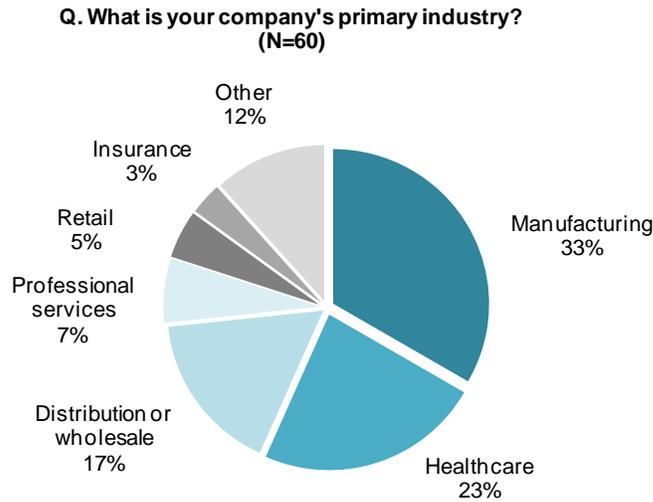
Figure 1: Level of Responsibility or Knowledge of Receivables Processing



Source: Aite Group survey of 60 middle-market companies' receivables experts, March to April 2013

Manufacturing comprises one-third of the respondents' industries, healthcare makes up nearly one quarter, and distribution or wholesale rounded out the top three with close to one-fifth of respondents' industries. Other represented industries are illustrated in Figure 2.

Figure 2: Industries Represented by Respondents

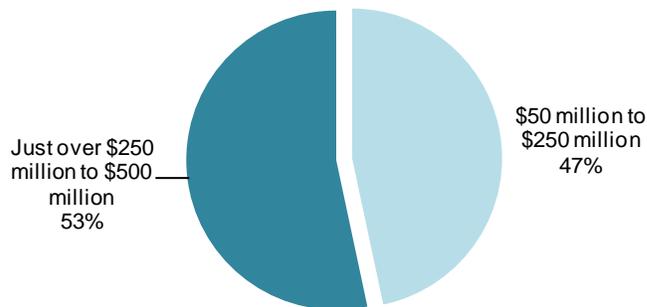


Source: Aite Group survey of 60 middle-market companies' receivables experts, March to April 2013

Given the broad range of revenue used to define middle-market companies, Aite Group placed each respondent in a revenue sub-group of either US\$50 million to US\$250 million in revenue or just over US\$250 million to US\$500 million in revenue (Figure 3). Aite Group's expectation was that there would be some statistically significant differences in answers to the questions between the two groups. That expectation proved mostly false. Nonetheless, this division shows that respondents represent companies of varying sizes within the middle-market range.

Figure 3: Respondents by Sub-Categories of Middle-Market Company Revenue

Q. Into which of the following categories does your company's annual revenue fall? (Revenue in US\$; N=60)

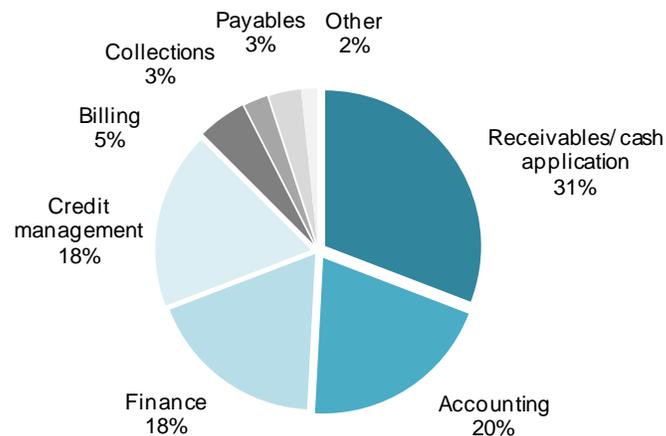


Source: Aite Group survey of 60 middle-market companies' receivables experts, March to April 2013

The top four functional areas represented by Aite Group survey respondents are receivables/cash application (31%), accounting (20%), finance (18%), and credit management (18%). For middle-market companies, these areas are the most focused on collecting and processing payments received from other companies (and their related remittance information) to resolve discrepancies and shorten time to cash (Figure 4).

Figure 4: Functional Roles of Respondents

**Functional Areas Represented Based on Respondents' Titles
(N=60)**



Source: Aite Group survey of 60 middle-market companies' receivables experts, March to April 2013

AITE GROUP SURVEY OF U.S. SENIOR RECEIVABLES MANAGERS OR EXPERTS AT MIDSIZE COMPANIES

Midsized companies that participated in the survey have revenue that ranges from US\$10 million to US\$500 million. To ensure that participants were not exclusively from the lower or upper band of the revenue range, Aite Group divided the group into two revenue segments: US\$10 million to less than US\$50 million and US\$50 million to US\$500 million, with half of the respondents in each category. Most of the information in this report covers only the middle-market component—those with revenue of US\$50 million to US\$500 million. Where the data represents the entire midsized company category, that fact is clearly designated.

The Q1 2012 survey of U.S.-based companies included respondents from a range of industries, with manufacturing as the largest proportion of midsized companies, followed closely by retail (Table A).

Table A: Industries Represented by Midsize-Company Receivables Respondents

Q. Which industry best describes the work of your company? (N=60)	Percentage of respondent companies (due to rounding, the total is greater than 100%)
Manufacturing	30%
Retail	17%
Construction (including oil refineries)	8%
Wholesale	8%
Distribution	7%
Professional services	7%
Agriculture	3%
Contractor	3%
Energy	3%
Baked goods	2%
Consumer packaged goods	2%
Financial services	2%
Healthcare	2%
Insurance	2%
Printing and publishing	2%
Telecommunications	2%
Utilities	2%

Source: Aite Group survey of 150 senior receivables managers or experts at U.S.-based companies of all sizes, Q1 2012

Respondents from midsize companies had senior-level functional titles (Table B). To qualify for the survey, respondents replied positively to the following question: From a receivables perspective, when it comes to making decisions about the way your company collects and processes remittance information, invoices, and related payments, do you have primary responsibility for and knowledge about these decisions or have considerable knowledge about these decisions?

Table B: Midsize Companies' Receivables Respondents' Job Titles

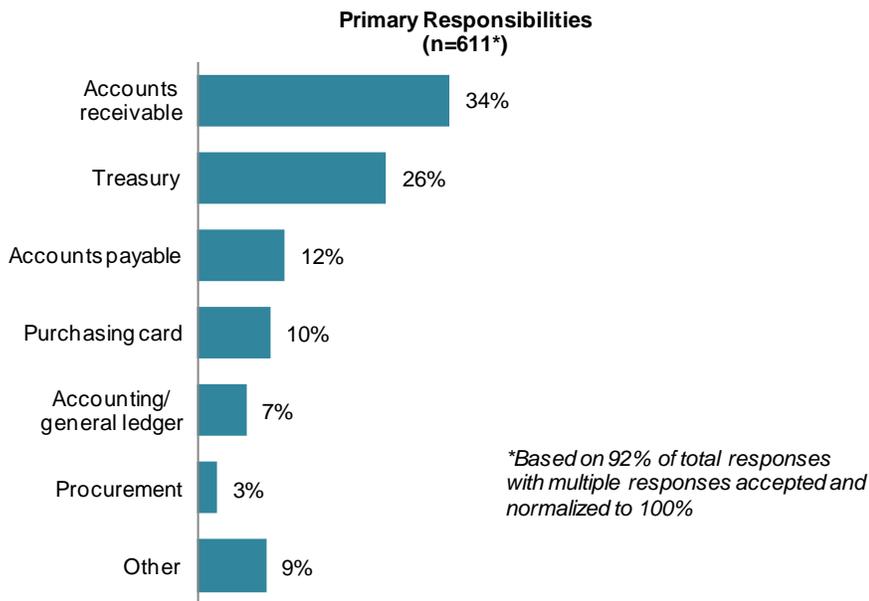
Q. What is your job title? (N=60)	Percentage of respondents (due to rounding, the total is greater than 100%)
Credit manager	25%
Controller	17%
Receivables manager	12%
Accountant	10%
Accounting manager	10%
Chief financial officer	10%
Collections manager	6%
Accounting supervisor	4%
Owner/President/Vice president	4%
Payables manager	2%
Treasurer	2%

Source: Aite Group survey of 150 senior receivables managers or experts at U.S.-based companies of all sizes, Q1 2012

FRB-HOSTED SURVEY OF MIDDLE-MARKET COMPANIES AND LARGE CORPORATIONS

Since the organizations used to solicit respondents tend to have larger companies as members, 90% of the total respondents have annual revenue of US\$50 million or greater (making them, by Aite Group's designation, middle-market companies to large corporations). Slightly more than one-third of respondents are responsible for accounts receivable and slightly more than a quarter are from treasury (Figure 5).

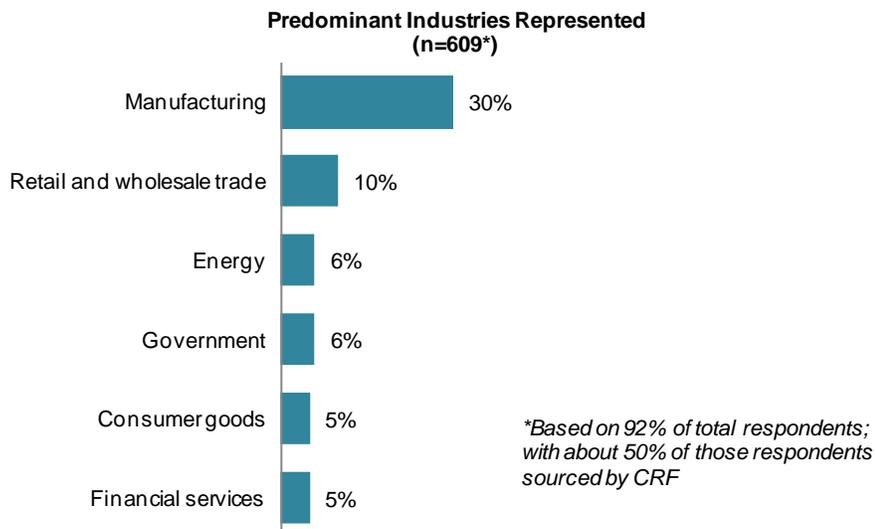
Figure 5: Respondents to FRB-Hosted Survey by Primary Areas of Responsibility



Source: Federal Reserve Bank of Minneapolis online "Remittance Coalition" survey of 662 financial professionals at companies of all sizes, June to July 2012

Overall, nearly one-third of respondents come from the manufacturing industry, with the next-highest percentage of 10% from retail and wholesale trade (Figure 6). Other than manufacturing, no one industry is significantly represented in this survey.

Figure 6: Predominant Industries Represented in FRB-Hosted Survey

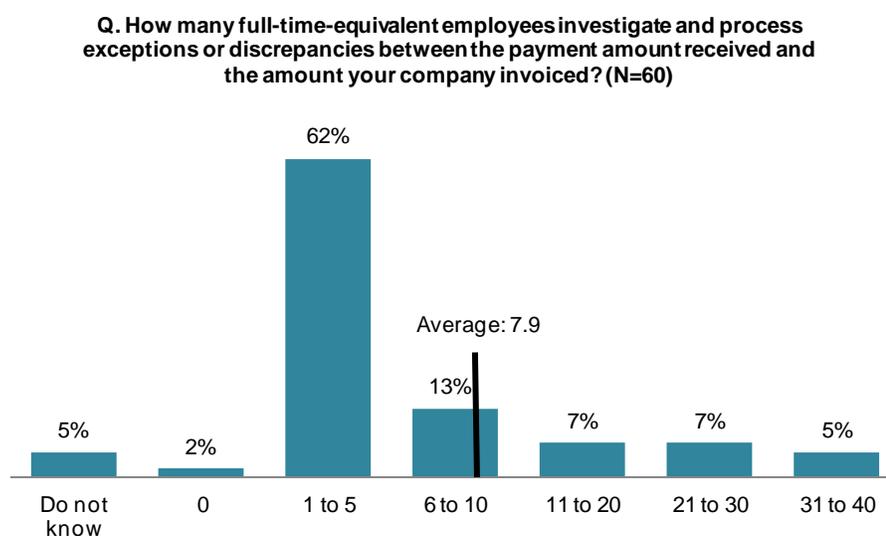


Source: Federal Reserve Bank of Minneapolis online "Remittance Coalition" survey of 662 financial professionals at companies of all sizes, June to July 2012

MIDDLE-MARKET COMPANIES' RECEIVABLES PROCESSING

Companies report an average of 7.9 full-time equivalent (FTE) employees that investigate and process exceptions or discrepancies between the payment amount received and the amount their company invoiced. The median FTE answer is three, while more than 60% of companies indicate they have one to five FTEs processing exceptions. Still, nearly one-fifth have more than 10 FTEs processing exceptions (Figure 7). At a conservative annual salary of US\$30,000,⁴ plus 25% benefits (US\$7,500), the 19% of companies with more than 10 FTEs pay total staff expenses of between US\$412,500 (11 FTEs) and US\$1.5 million (40 FTEs) for resolving discrepancies.

Figure 7: Number of Employees Processing Payments Exceptions or Discrepancies



Source: Aite Group survey of 60 middle-market companies' receivables experts, March to April 2013

Were STP improved by automation, allowing the company to eliminate or redeploy only 25% of these employees, the reduction in FTEs would range from 2.75 of the 11 FTEs to 10 of the 40 FTEs. These staff reductions translate to cost savings of between US\$103,125 (representing 2.75 FTEs) to US\$375,000 (representing 10 FTEs) annually.

Of companies that have more than average FTEs investigating and processing exceptions or discrepancies, certain industries stand out. In particular, the manufacturing, healthcare, and distribution and wholesale industries tend to report relatively large numbers of cash application staff employed to resolve discrepancies (Table C).

4. Lowest average "Accounts Receivable Clerk" salary from <http://www.bls.gov/ooh/office-and-administrative-support/bookkeeping-accounting-and-auditing-clerks.htm#tab-5>, <http://www.indeed.com/salary/Accounts-Receiveable-Clerk.html> and www1.salary.com.

Table C: Industries With the Largest Number of Cash Application Staff

Number of FTEs	Number of companies	Industries (Numbers in parentheses designate the number of respondents mentioning the industry)
8	2	Healthcare (1), Manufacturing (1)
10	2	Healthcare (1), Distribution or wholesale (1)
12	2	Distribution or wholesale (1), Manufacturing (1)
15	1	Manufacturing (1)
20	1	Healthcare (1)
25	1	Healthcare (1)
30	3	Healthcare (2), Other (1): PET MRI Services
35	1	Healthcare (1)
40	2	Distribution or wholesale (2)

Source: Aite Group survey of 60 middle-market companies' receivables experts, March to April 2013

Respondents listed banks and vendors as providers of their receivables systems, naming SAP six times, Oracle five times, and Microsoft four times. No other provider was named more than twice (Table D), and nine respondents did not know their vendor provider.

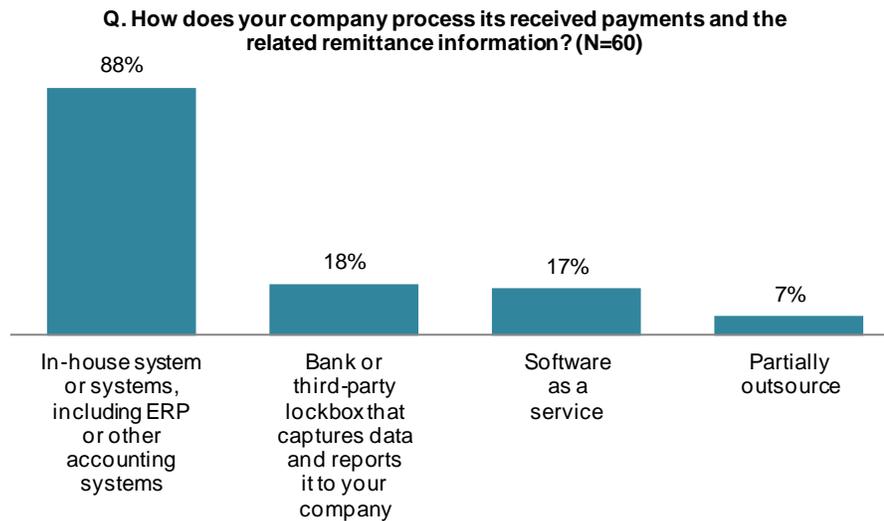
Table D: Providers of Receivables Systems

Q. Which vendor provides your company's primary system for handling business payments and the related remittance details? (N=51; numbers in parentheses designate the number of respondents mentioning the provider, if more than one)			
Allegra	ClaimLogic	Legacy system (2)	Siemens
Amphenol	E-premise	Mapics	Temptron
Aspen Systems with Canopy Software	Epicor	McKesson (2)	The MAC PAC Business System
Avaerto 4	IDX or GE	MDI Achieve	United TranzActions
Axiom	Grain Smart	Microsoft (4)	Vecmar
Bank of America	IBM (2)	Nutro-Mars	Wellington Royce
Unnamed bank (2)	Infor/Lawson (2)	Oracle (5)	Wells Fargo
bisTrack	In-house developed (6)	Passport Software, Inc.	
Cerner	Kubra	SAP (6)	

Source: Aite Group survey of 60 middle-market companies' receivables experts, March to April 2013

The great majority (88%) of midsize companies do at least some of their receivables processing in-house. Only 18% use a bank or third-party lockbox (Figure 8), which is a big contrast to the 67% of large corporations that use lockbox services for at least some of their receivables processing.

Figure 8: Receivables Processing Methods Used by Midsize Companies

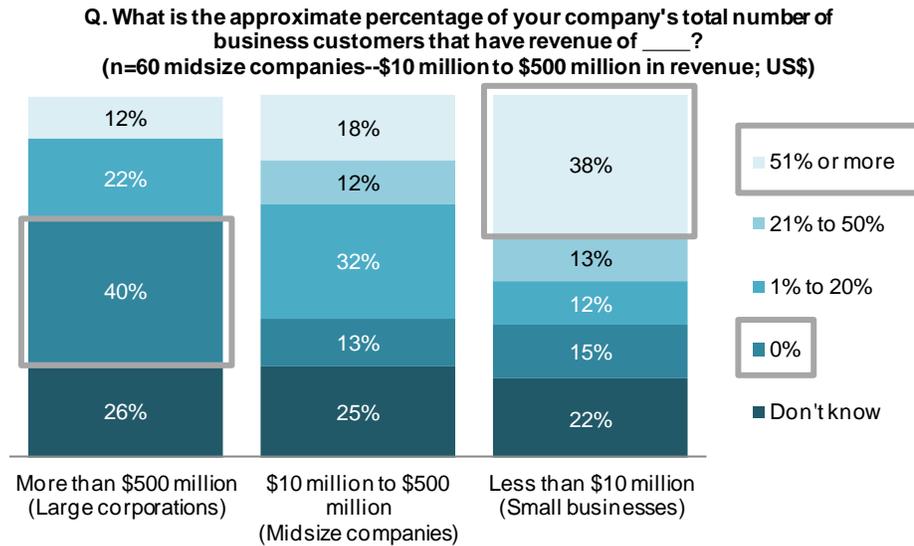


Source: Aite Group survey of 150 senior receivables managers or experts at U.S.-based companies of all sizes, Q1 2012

As Figure 9 shows, of the midsize companies' business customers, a significant proportion constitutes small businesses (less than US\$10 million in revenue). Thirty-eight percent of midsize companies (US\$10 million to US\$500 million in revenue) say that more than half of their customers are small businesses. A similar 40% of respondents say that none of their customers is a large corporation (more than US\$500 million in revenue).

What is the importance of this large base of small businesses? Small businesses are more likely to make payments by paper check than are middle-market companies and large corporations, and they are more resistant to switching to electronic payments and electronic remittance-details communication. This suggests that middle-market companies will need to process paper payments and remittance details for the foreseeable future. Though paper-based operations hinder STP, the good news is that automated solutions can capture data from paper and convert it to electronic formats.

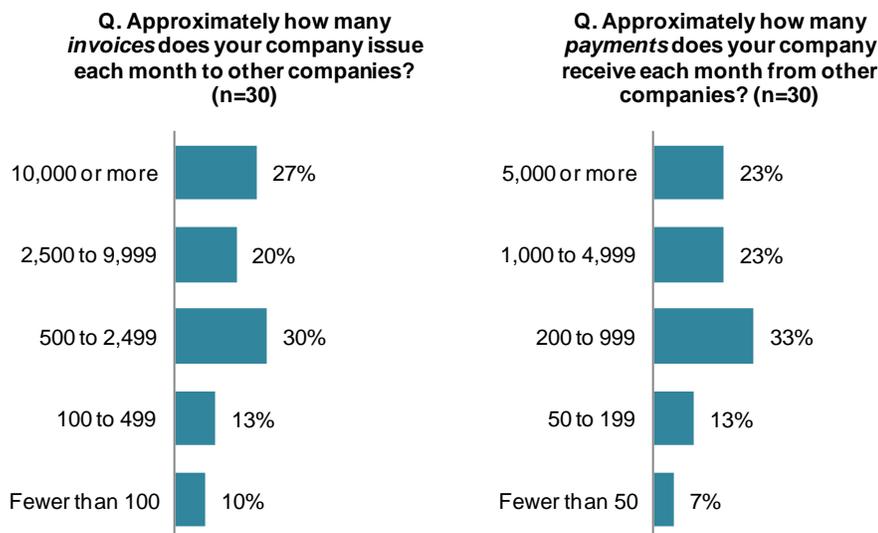
Figure 9: Midsize Companies' Business Customers by Size



Source: Aite Group survey of 150 senior receivables managers or experts at U.S.-based companies of all sizes, Q1 2012

Monthly invoices *issued* by middle-market companies range from a low of 10 to a high of 175,000, with an average of 10,555. The range of monthly *payments* is even more extreme, at 10 to 10 million payments per month (Figure 10) and a monthly average of 341,975 (skewed by the one company that has 10 million payments per month; without it, the average would be 8,754). Adjusting for the extremes, each payment that middle-market companies receive represents approximately 1.5 invoices, so payers often combine invoices in a single payment.

Figure 10: Midsize Companies' Monthly Invoices Issued and Payments Received

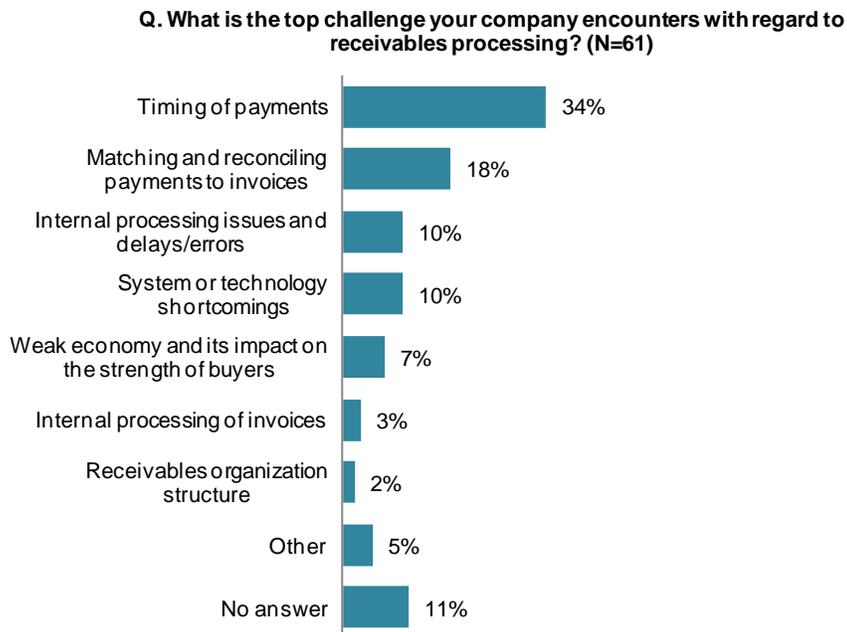


Source: Aite Group survey of 150 senior receivables managers or experts at U.S.-based companies of all sizes, Q1 2012

RECEIVABLES PROCESSING CHALLENGES

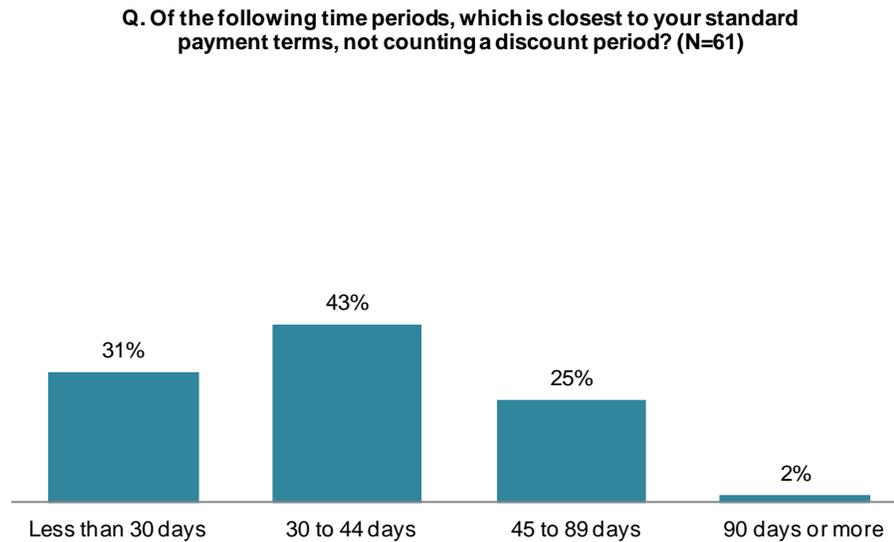
About one-third of midsize companies state that the timing of payments is their company's top challenge with regard to receivables processing (Figure 11). Trading partner payment terms affect the timing of payments. The standard across many industries has been the same for many years: "2/10, net 30" means that payers can take a 2% discount if they pay within 10 days, or they can pay the full balance (no discount) in 30 days.

Figure 11: Top Receivables Challenges That Midsize Companies Experience



Source: Aite Group webinar poll question, *Optimizing Working Capital Using Receivables Best Practices*, September 12, 2012

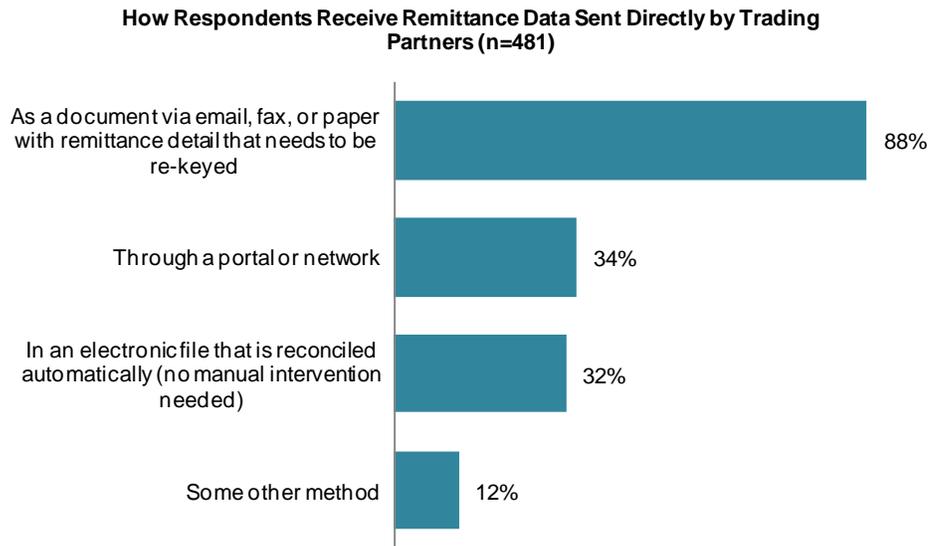
Forty-three percent of midsize companies indicate that their standard payment terms—not counting a discount period—are 30 days to 44 days. While nearly one-third of respondents say that the standard payment terms are less than 30 days, the average number of days in which a non-discounted payment is due is lengthening overall (Figure 12).

Figure 12: Non-Discount Payment Terms of U.S.-Based Midsize Companies

Source: Aite Group webinar poll question, *Optimizing Working Capital Using Receivables Best Practices*, September 12, 2012

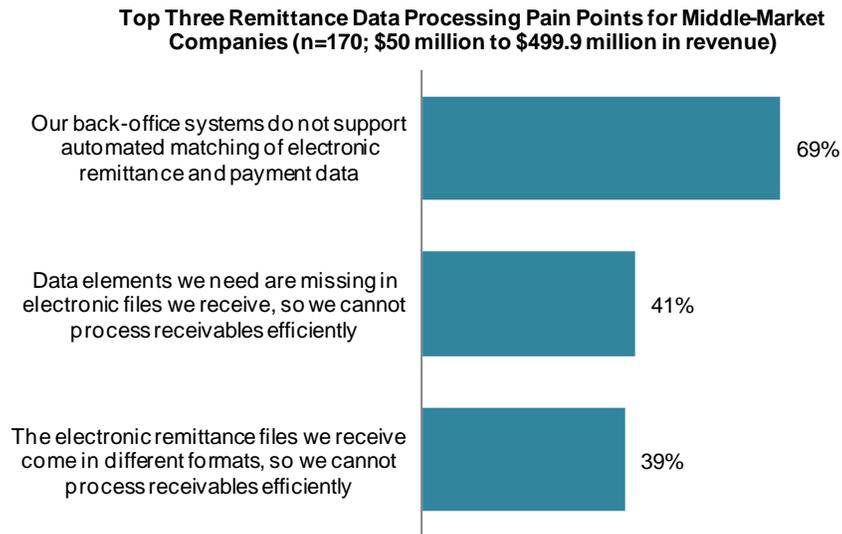
As the United States Postal Service's financial difficulties continue, mail delivery is expected to slow, further impacting the speed at which paper payments and their related remittance details are received. Lockbox processing is one method of speeding payments receipt and posting. Additionally, using lockbox processing allows the receivables company to manage the multiple remittance-details delivery channels and new channels continually introduced and to improve the timing of payments (34%) and matching and reconciling payments to invoices (18%) as shown in Figure 11 above.

The FRB-hosted survey for the Remittance Coalition asked respondents about the methods by which they receive remittance details, but it did not break that data out by size of company. Nonetheless, the information can be expected to directionally reflect the experience of middle-market companies. Overwhelmingly, respondents (88%) say they receive remittance details directly from their trading partners "as a document via email, fax, or paper with remittance details that needs to be re-keyed" (Figure 13).

Figure 13: Methods by Which Remittance Details Are Received

Source: Federal Reserve Bank of Minneapolis online "Remittance Coalition" survey of 662 financial professionals at companies of all sizes, June to July 2012

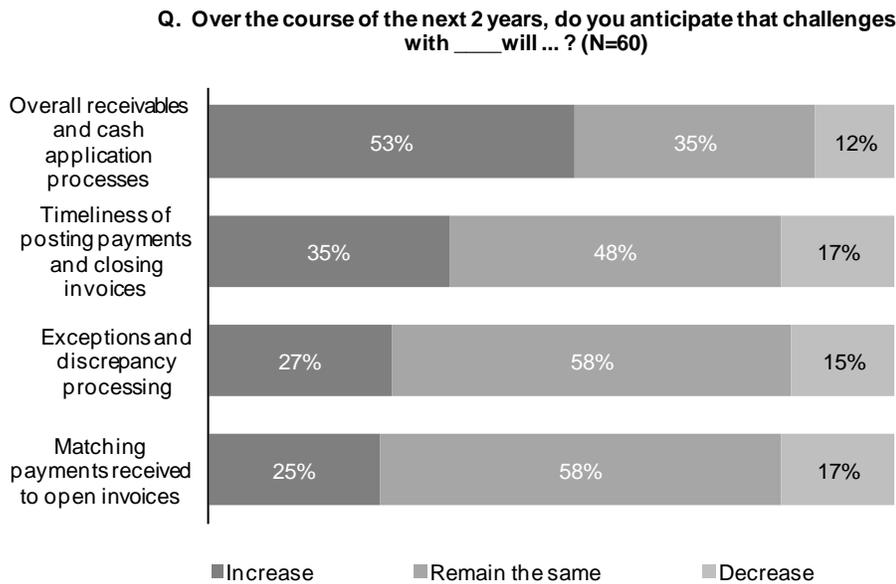
That same survey broke down the top three pain points for middle-market companies with regard to processing remittance details. Figure 14 shows that the greatest percentage (69%) of middle-market companies experience remittance data processing pain because their "back-office systems do not support automated matching of electronic remittance and payment data," strongly suggesting a need for greater automation and integration with back-office systems. Given the 39% of respondents that view the differing formats of electronic remittance files as a problem, automatically identifying those formats and converting them to the one the company uses internally could help resolve their issues.

Figure 14: Top Remittance Data Processing Pain Points for Middle-Market Companies

Source: Federal Reserve Bank of Minneapolis online "Remittance Coalition" survey of 662 financial professionals at companies of all sizes, June to July 2012

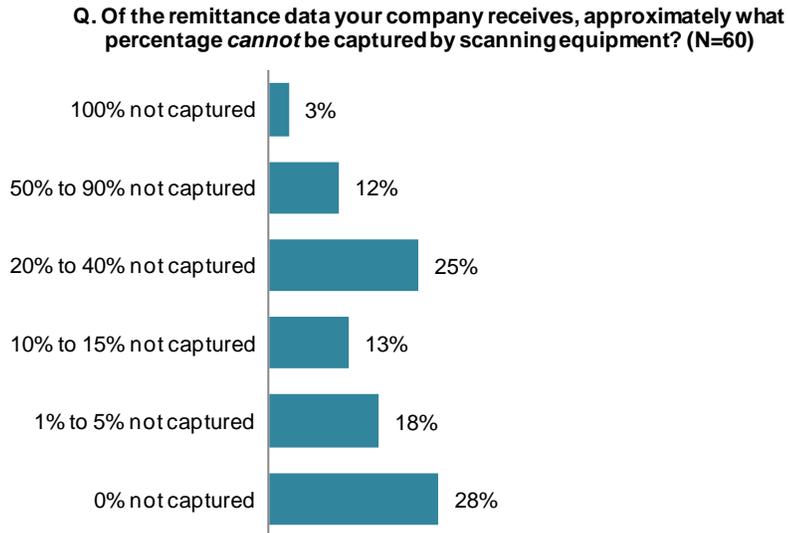
More than half of respondents in the 2013 Aite Group survey expect an "increase" in challenges with overall receivables and cash application processes in the next two years. Regarding challenges with timeliness of posting payments and closing invoices, exceptions and discrepancies processing, and matching payments received to open invoices, respondents mostly expect them to "remain the same" (Figure 15). While that is a more positive situation than for overall receivables and cash application, it is a weak position in that the existing level of STP is abysmal, as shown in Figure 16. While not stated in the same terms as the responses to the FRB-hosted survey, the sentiments expressed are similar.

Figure 15: Forecast Challenges



Source: Aite Group survey of 60 middle-market companies' receivables experts, March to April 2013

All of the companies that Aite Group surveyed in 2013 have deployed scanning solutions that automate the capture of data from paper and convert it into electronic formats. Only 3% of respondents say that none of the remittance data is captured. Another 12% state that half or more of their remittance data is not captured by their scanning solution, and 25% say that one-fifth to two-fifths of their data is not captured. While these numbers indicate that scanning solutions capture substantial amounts of remittance data, room for improvement remains. Only 28% of companies have complete STP, which means they capture all of the remittance data through automated scanning (Figure 16).

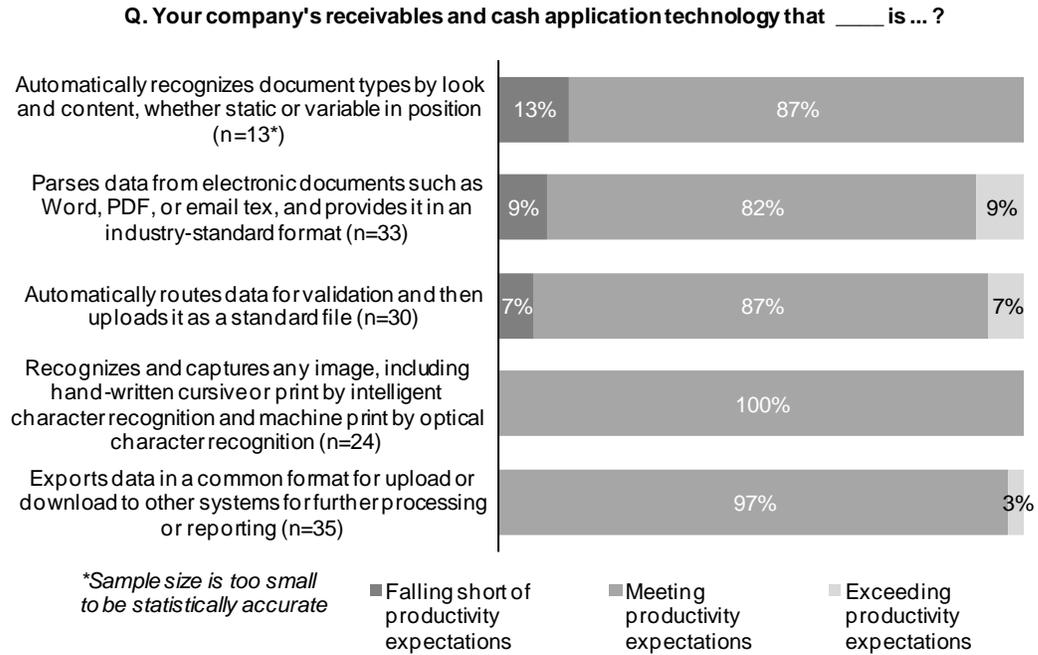
Figure 16: Data Not Captured by Current Scanning Solutions

Source: Aite Group survey of 60 middle-market companies' receivables experts, March to April 2013

SOFTWARE CAPABILITIES FOR RECEIVABLES DATA CAPTURE

Of the five capabilities on which the 2013 Aite Group survey focused, at least one has been deployed by roughly half of the companies. Overwhelmingly, respondents indicate that their productivity expectations have been met by the deployed technologies (Figure 17). One exception is technology that "automatically recognizes document types by look and content, whether static or variable in position," though the number of companies that have deployed automatic document recognition is too small to provide statistically accurate information. Nonetheless, of the implemented capabilities, automatic document recognition received the highest percentage of "falling short of expectations" responses (13%).

Figure 17: Productivity of Deployed Receivables and Cash Application Technology

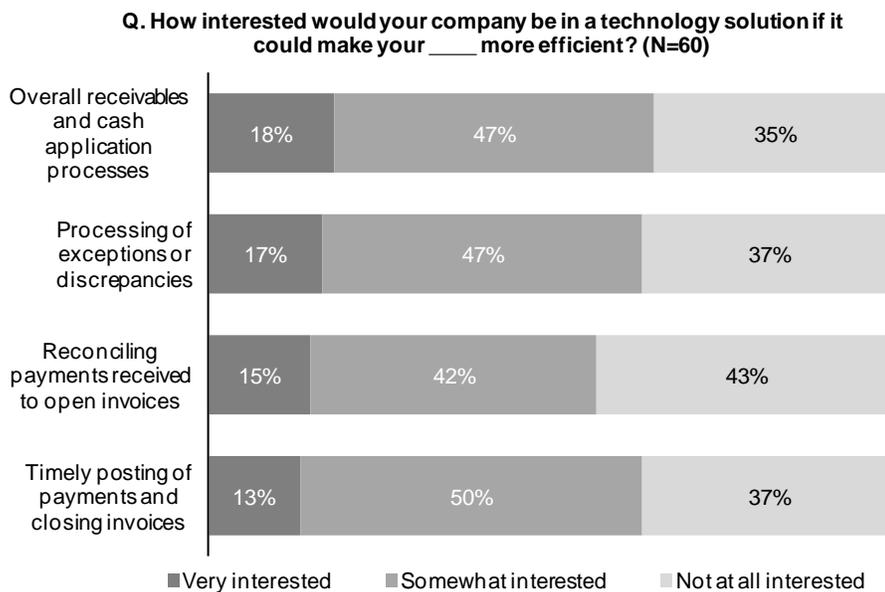


Source: Aite Group survey of 60 middle-market companies' receivables experts, March to April 2013

OPPORTUNITIES FOR IMPROVEMENT

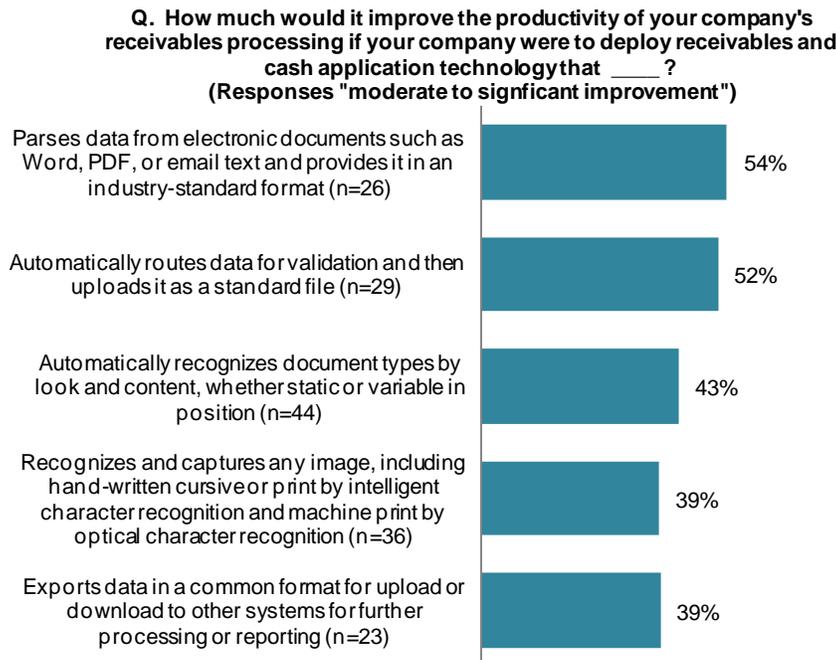
Although respondents to Aite Group's 2013 middle-market survey generally indicate that they do not expect receivables processing challenges to "decrease" (Figure 15), their interest in technology solutions that can overcome such challenges is lukewarm (Figure 18). This posture suggests a lack of understanding about technology solutions in use today, because large corporations have deployed such technology solutions that assist with addressing many of the challenges identified.

Figure 18: Interest in Technology Solutions to Overcome Challenges



Source: Aite Group survey of 60 middle-market companies' receivables experts, March to April 2013

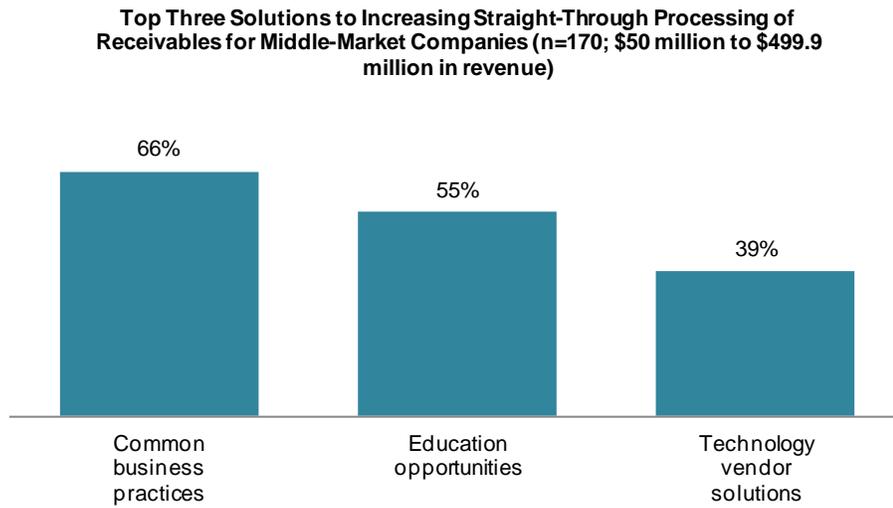
Further, when asked about the benefit of deploying specific technology solutions, nearly two-fifths to more than half of respondents say they would expect "moderate to significant improvement" to their company's receivables processing productivity (Figure 19).

Figure 19: Moderate to Significant Improvement Expected From Technology Deployment

Source: Aite Group survey of 60 middle-market companies' receivables experts, March to April 2013

A disconnect seems to exist between middle-market companies' interest in and assessed value of technology solutions. One resolution to that anomaly is education. In the FRB-hosted survey, 55% of middle-market companies chose "education opportunities" as one of the top three solutions to increase STP and improve receivables processing. Education was only topped by "common business practices," cited by two-thirds of middle-market respondents (Figure 20).

Figure 20: Preferred Solutions for Increasing Straight-Through Processing



Source: Federal Reserve Bank of Minneapolis online Remittance Coalition survey of 662 financial professionals at companies of all sizes, June to July 2012

CONCLUSION

- While banks and third parties offer lockbox services to automate and streamline companies' receivables processing, remittance-details data capture, and reporting, middle-market companies use such services only minimally. The middle market, especially those companies approaching the upper end of the category (US\$500 million), should be particularly interested in lockbox services.
- Education is critical for the middle market and its mostly small-business customer base. The surveys discussed in this report surface respondent inconsistencies with regard to middle-market participants' expectations that receivables processing challenges are increasing, and their relative lack of interest in technology that could alleviate those challenges. This indicates that there is a knowledge gap to be filled:
 - Banks should ensure that middle-market companies are fully aware of their receivables processing solutions. Banks need to over-explain the benefits of this technology and price the offerings attractively for this market.
 - Technology vendors and software providers should directly support the education needs of this market while supporting financial institution partners' educational offerings.
- Banks should rely on their technology partners to assist them in cost effectively taking their automation to the next level. By doing so, banks can control their costs and price their solutions in acceptable ranges for middle-market companies.
- A number of middle-market companies say they currently use many of the technologies but are not particularly impressed with the outcome. For banks and technology vendors, the opportunity to improve on the capabilities and ensure that they deliver or exceed expectations is very real.
- Technology companies also should partner with technology providers that have particular expertise—combined offerings would be considerably better than a solution developed by a company with limited experience in that technology. These combination solutions should be sold to both financial institution receivables processing providers and directly to middle-market companies.

ABOUT AITE GROUP

Aite Group is an independent research and advisory firm focused on business, technology, and regulatory issues and their impact on the financial services industry. With expertise in banking, payments, securities & investments, and insurance, Aite Group's analysts deliver comprehensive, actionable advice to key market participants in financial services. Headquartered in Boston with a presence in Chicago, New York, San Francisco, London, and Milan, Aite Group works with its clients as a partner, advisor, and catalyst, challenging their basic assumptions and ensuring they remain at the forefront of industry trends.

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