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Bred Tough: The Best-of-Breed, 2009

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The first faint scents of a recovery are in the air, and niche software vendors are straining at the leash.

This has been a super-tough year for tech investments of all kinds. The big IT analyst firms kicked off 2009 with dismal forecasts for the IT market and have been revising them downward ever since. The numbers turned negative even for the software segment, historically the most resilient. Gartner's June forecast for worldwide IT spending has software spend contracting by 1.6 percent for 2009; Forrester's global IT outlook (also published in June) is even bleaker, predicting a whopping 8.2 percent decline in software spend for the year.

But the worst may soon be over, the analyst houses agree. The decline in the software sector has almost stabilized, according to Gartner, and the firm predicts a return to positive growth of 3.2 percent in 2010 -- pretty anemic, but at least it's in the right direction. Forrester expects a turnaround in the overall IT market starting in Q4 as businesses realize that they overreacted in the first quarter. The U.S. market will lead, with Europe and Asia turning the corner in the first quarter of 2010.

This is good news for every one of the firms we list here in our annual roundup of best-of-breed software vendors. There's good news for buyers, too. The bargains are still out there, for now. The products and providers that survive in this frigid climate will be around for some time to come as the economy thaws. And the recession may actually have stepped up the pace of innovation; just as the features of Web 2.0 were forged in the 2001--2003 tech meltdown, expect the next wave of groundbreaking technologies to emerge from the current downturn.

A New Image for A/P and A/R

In both the receivables and the payables zones of the cash ecosystem, the challenge, still, is paper -- mounds and mounds of it. But companies are determined to put a dent in this; witness the continuing strength of the e-purchasing market. A recent report from Forrester predicts a 21 percent increase in revenue for e-purchasing vendors worldwide this year. The market for supplier networks experienced a compound annual growth rate (CAGR) of 24 percent from 2004 to 2009, and for electronic invoice presentment and processing (EIPP), the CAGR was 29 percent.

Electronic transactions are still far from the norm, though, and a growing number of companies are turning to document imaging and data capture technologies to tackle A/R and A/P inefficiencies. Corporate applications of optical character recognition (OCR) have been around for more than 20 years, but today's imaging systems bear little resemblance to the hit-and-miss OCR products of the '80s. Invoice imaging systems, for example, can capture the semistructured information on these highly variable documents, validate it against user-defined business rules, and feed it into an ERP or accounting system.

For Scott Searls, senior vice president and chief supply executive with telecom colossus Alltel Wireless at the time of my interview, much of the impetus for automating A/P came from the company's decision to change its payment terms. "We thought, 'Well, why don't we push this on two sides? Why don't we take a prompt payment discount -- we'll tell suppliers that we'll pay them in 10 days and take a 2 percent discount from the invoice -- or we'll push the payment amount to 45 days."

Sounds straightforward enough, but the plan hit a snag. Alltel's systems were not capable of recognizing payments and getting them approved and processed within the 10 days. "So we could take the 2 percent discount, but we ended up paying the supplier 15 to 20 days later -- and this didn't go over very well, as you might expect," Searls recalls.

An invoice processing solution from Brainware bought Alltel more time at the front end. "By allowing the invoice to be optically scanned, you get an image that then has intelligence in it; the system reads the invoice, pulls out critical fields, pre-populates them for you, and ties this straight into the payables system, so that you eliminate a lot of the human interaction," Searls explains. Approvers get the invoice faster and move it on to payments sooner, giving Alltel a much better chance of taking that 2 percent discount -- not to mention a fast ROI on the new system.

"Literally the first day that it was installed, we pulled back more discounts than the cost of the software," says Searls. "The folks who were working on it came to me and said, 'You won't believe this!' And I was thinking that it must have blown up or something or that it didn't install correctly or that somebody had missed all the feeds, so now we would be way behind. And they said, 'This is how many dollars we saved today ...' -- and it was bigger than the cost of the implementation. We were laughing and crying at the same time."

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