OCR & E-Invoicing: Learn How to Leverage These Key Technologies in AP Automation

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Overview

OCR, E-invoicing, EIPP… The industry is abuzz with discussion of how, when, and where to incorporate these technologies to streamline AP operations, reduce human error and reduce costs. But which one is right for your organization? Is it an "either/or" question, or is there a role for both? What are the criteria organizations should use to decide? Where to begin? This paper will offer a perspective on the benefits of the respective technologies, and a framework for evaluating them.

OCR and E-Invoicing can be highly leveraged additions to an AP automation strategy

Automating Invoice Entry: Where to Begin?

AP organizations are the poster children for "doing more with less." AP teams are asked/required to increase processing throughput and respond to increased regulation and compliance requirements (e.g., SOX), without any additional resources. At the same time, they're also asked to deliver a higher quality of service to lines of business and suppliers, and to enhance and enforce consistent processes, often across a geographically dispersed organization.

In many cases, the organization has an ERP foundation and a workflow solution in-place already, but they find that they need to take the AP operations to the next level. Automating the invoice-entry process is an obvious starting point because of the opportunities to reduce costs and costly errors, but anyone considering a project has heard diametrically opposed anecdotes of both tremendous successes and abject failures related to OCR, e-invoicing and supplier portal initiatives, raising the question of how these technologies can be so well-suited to some situations and ill-suited to others.

From a "building blocks" perspective, automated invoice entry sits on top of other foundational layers, starting with the ERP system at the bottom layer. As the "system of record," the ERP is an excellent backbone for tactical and transactional matters, but does not address processes. On top of the ERP is the Shared Service Center, which typically addresses processes and control issues, but as a first step toward being a strategic operation. The next (3rd) layer is AP automation, involving imaging and workflow, which can be leveraged to drive financial controls, business processes and timely payment of invoices, and which provides overall process control. With these underpinnings, organizations are in a strong position to consider automated invoice entry methods – OCR, EDI/XML, supplier networks and/or outsourced entry services – that can work in concert with the ERP environment.

But, what's the real benefit of automation technologies? According to The Hackett Group's research, the median cost to process an invoice per line item is $3.84 for paper invoices and $0.58 for electronic invoices. Regarding discrepancy resolution, The Hackett Group found that the cost per line item is $0.49 for paper and $0.14 for electronic invoices! When multiplying those figures across the number of invoices received in a typical Global 2000 company, the figures grow quite quickly.

Before taking on an invoice automation project, it's important to keep a few key principles in mind:

1) Invoice automation is an art, not a science;
2) There is no single "silver bullet" in invoice automation (most organizations need multiple options); and
3) Invoice automation does not = a "lights-out" AP department.

With these principles fully understood, it's time to explore the options.

Invoice Automation Options

Automated invoice entry options are as follows:

- Peer-to-Peer e-Invoicing
- Network-Based e-Invoicing
- Optical Character Recognition (OCR)
- Outsourced Scan to data

Peer-to-Peer e-Invoicing: With peer-to-peer e-Invoicing, suppliers send EDI or XML feeds directly to the customer and the invoice data is entered into the ERP via a source feed. The data is then rendered into an invoice image, which then follows the path of a traditional PO- or non-PO-based invoice in the enterprise. The rendered invoice mimics its paper cousin so that AP staff and line-of-business approvers are working with a familiar visual metaphor.

This approach to electronically submitting invoice has been highly successful for many organizations and is time-proven. The start-up costs for this type of relationship are high, often >$15K/supplier, and require a time- and resource-intensive set up process for both supplier and buyer. But the ongoing costs are relatively low for high-volume suppliers and because the relationship is controlled by the supplier and buyer, relationship-specific processes and/or custom ERP validations are viable.

Network-Based Electronic Invoicing: In the case of a network-based model, suppliers and customers interact with a "middleman" or hub to upload and receive invoices, respectively. For network-based solutions, there are a broad range of capabilities in the marketplace, and the advantages of having a third party manage supplier enablement can be a tremendous advantage. However, this is a young technology and the results, to-date, are mixed.

Optical Character Recognition (OCR): OCR technology has been around for many years and has equal numbers of fans and detractors. However, in the last few years, OCR technology has made great strides, causing many of the nay-sayers to have another look. With OCR in place, invoices are scanned, recognized, validated and released, at which point they enter the ERP and workflow environment.

With OCR in-place, organizations need little, if any, change to their relationships with suppliers. But, worth noting is that while people often focus on "recognition rates," the real point to consider is keystrokes, not percentages because, for example, if the overall number of keystrokes an operator has to perform drops to five from one hundred, the productivity dividend will be significant.

Outsourced Scan to Data: In this option, organizations contract with an independent third party that provides a lock-box address and scans all invoices received, converting them into data and images that are the delivered to the ERP for the standard workflows and approvals.

This approach offers the same technology pros and cons as OCR and can be a viable alternative for in-house OCR capabilities if the organization wants to use its resources differently. Additionally, it can serve as the perfect complement to organizations' electronic invoicing strategies as a means of handling the paper invoices that are still coming in.

Putting it All Together

Invoice Entry and Workflow Processes: Any invoice automation strategy – OCR, EDI/XML, network-based e-invoicing, and/or outsourced entry service -- ***must*** integrate with the organization's ERP system so that, once captured, ***all*** invoices follow the same standardized route through the organization. Such an approach ensures that the ERP is fully leveraged (sets of books, hierarchies, supplier lists, materiality limits, etc.), that the workflows that ensure

compliance with internal processes are adhered to, that approvals and exception-handling procedures are followed, and that the ERP's data store is employed, eliminating the risks of duplicate data. Also important to keep in mind is that, in most cases, organizations typically employ more than one invoice-automation technology, so it's doubly critical to ensure that single process approach so that there are not different processes based on how the invoice was originally received (paper, electronic, etc.). That approach creates numerous complexities and risks to the organization, the controls environment and increases audit time and cost. An additional benefit of a standardized process is that any future invoice-automation strategies can easily be incorporated, as well.

Segmenting the Supplier Base: Before embarking on an invoice-automation project, having a granular understanding of the supplier base is essential. The Hackett Group has a very clear, four-step process to technology-driven optimization. According to Kurt Albertson and Kai Zabel in a webcast, *Using OCR to Improve Invoice Processing*, the steps are as follows:

1) Set up end-to-end strategy focusing on supplier base optimaization, means of invoice receipt, and a risk/control balanced processing approach.
2) Implement a workflow tool for routings and approvals.
3) Move as many transactions as possible to electronic transmission.
4) Implement an OCR application based on the remaining invoice volume.

Looking at an organization's invoice volume, a proposed strategy for handling the invoices is as follows:

- **High-volume suppliers** are ideal candidates for peer-to-peer electronic invoicing.
    - Considerations: Be sure that the supplier(s) are responsible for a large number of invoices (>3,500/year, for example); that the suppliers are long-term, strategic and tech-savvy; that any unique invoicing considerations are taken into account, and understand whether this approach places any burden on the supplier.
- **Low-volume suppliers** can be managed via any number of options – P-Cards, supplier portal, key from image.
    - Considerations: How low is the volume of invoices? Is there a supplier rationalization opportunity?
- **"The Massive Middle"** (mid-tier suppliers) represents the bulk of the challenge for most organizations, and the majority of solutions – OCR, network-based electronic invoicing, outsourced scanning services and keying from image – are all strategies employed to manage these suppliers.
    - Considerations: When looking at this segment of suppliers, the issue is no longer about invoice volume per supplier, but about characteristics (invoice characteristics, supplier characteristics), non-standard ERP validations, and the organizational appetite for change. Addressing these suppliers typically takes a mix of strategies for most organizations.
        - *Network-based electronic invoicing* is a good bet for long-term suppliers that don't want peer-to-peer. Important issues here are the ease of supplier adoption, the number of suppliers beyond the manual web portal interface, and solutions for duplicate invoices.
        - *OCR* is a good bet for any of your suppliers in this group as a solid long-term, in-house solution. Considerations for this approach include template-based solution, requirements for data validations and appropriate expectations.
        - *Outsourced scanning services* are an excellent option for organizations that want to leverage their in-house staff more strategically.

Planning Your Strategy

As stated previously, a strong transactional ERP system with a full Procure-to-Pay process and established hierarchies, limits, tolerances, etc. must be in-place. Complementing that is an organizational unit accountable for AP (entry, resolution, project management, etc.) and a robust

imaging and workflow tool with defined business practices, strong exception-handling processes, and strong controls. This is the basis from which organizations can, realistically, explore the strategic addition of any invoice-automation strategy ***so long as all invoices are managed with a single, consistent process.*** Having a single process that accommodates all invoice types makes sense in the short-term for both AP staff and line-of-business users, all of whom learn one set of processes. In addition, as future invoice automation vehicles make their way to the market, they can simply be incorporated into the standardized, already established processes in use.