

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

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April 15, 2008

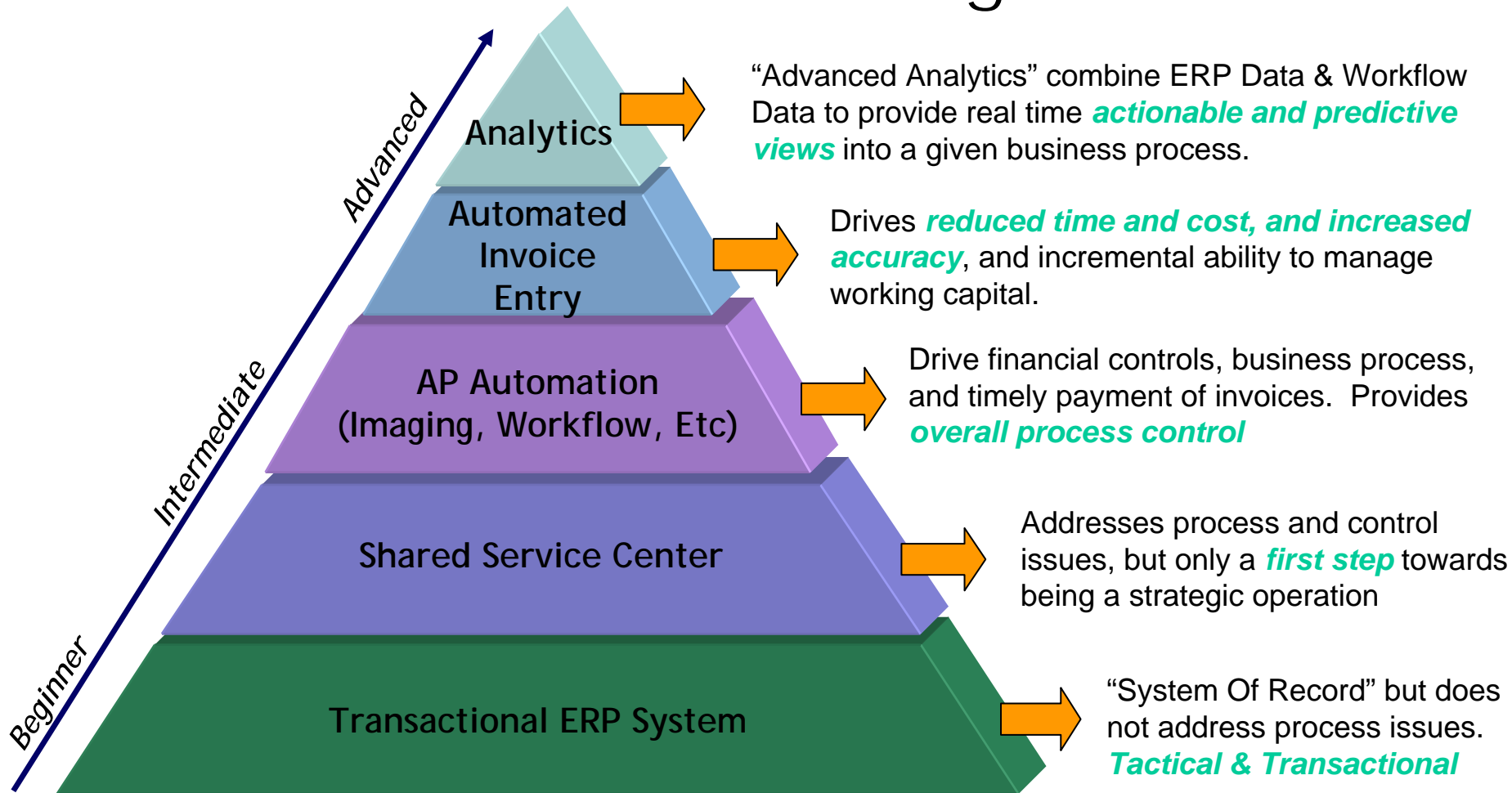
Does This Sound Like You?

- Being asked to **increase** processing throughput without any additional resources
- Required to respond to **increased regulations** and compliance requirements (SOX, etc.)
- Continually **searching** for supporting documents or establishing the status of a transaction
- Facing increased pressure from the LoB's, customers and vendors to offer **greater quality of service**
- Looking for a better way to **enhance and enforce** consistent processes across your far flung organization

Or, Does This Sound More Familiar...

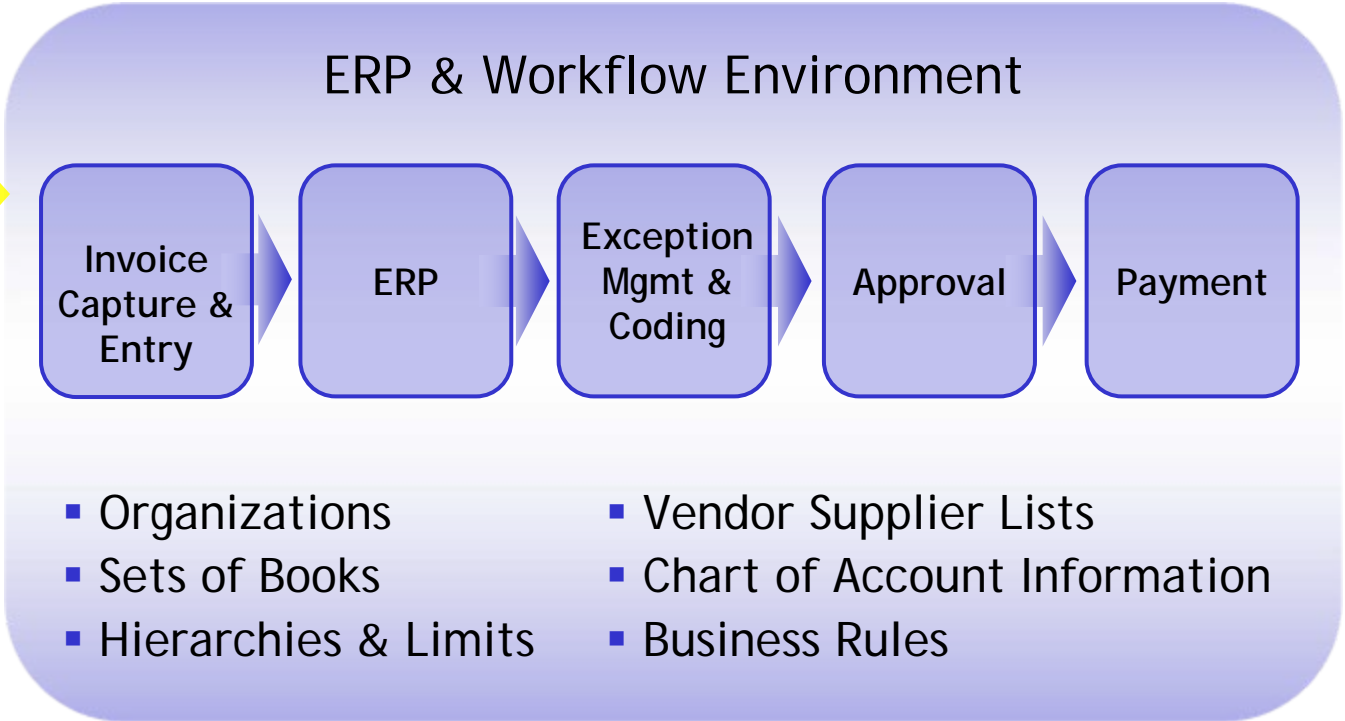
- You have the ERP foundation and a robust workflow solution already. You need to take your Accounts Payable operations to the *next level*...
- Automating the invoice entry process is an obvious place to look due to *cost reduction and error reduction*...
- You hear stories of *amazing success* as well as *equally amazing failures* related to implementations of OCR, Electronic Invoicing, and Supplier Portals...
- How can these technologies be so successful for some, and not for others? *What's right for you?*

Some Quick Level Setting...



Our Focus for Today

Metrics, Analytics, Reporting



Scan/Fax



Self Service Invoice



★ OCR



★ EDI (001100)
XML (1 111)

★ Supplier Network

★ Outsourced Entry Service

Agenda

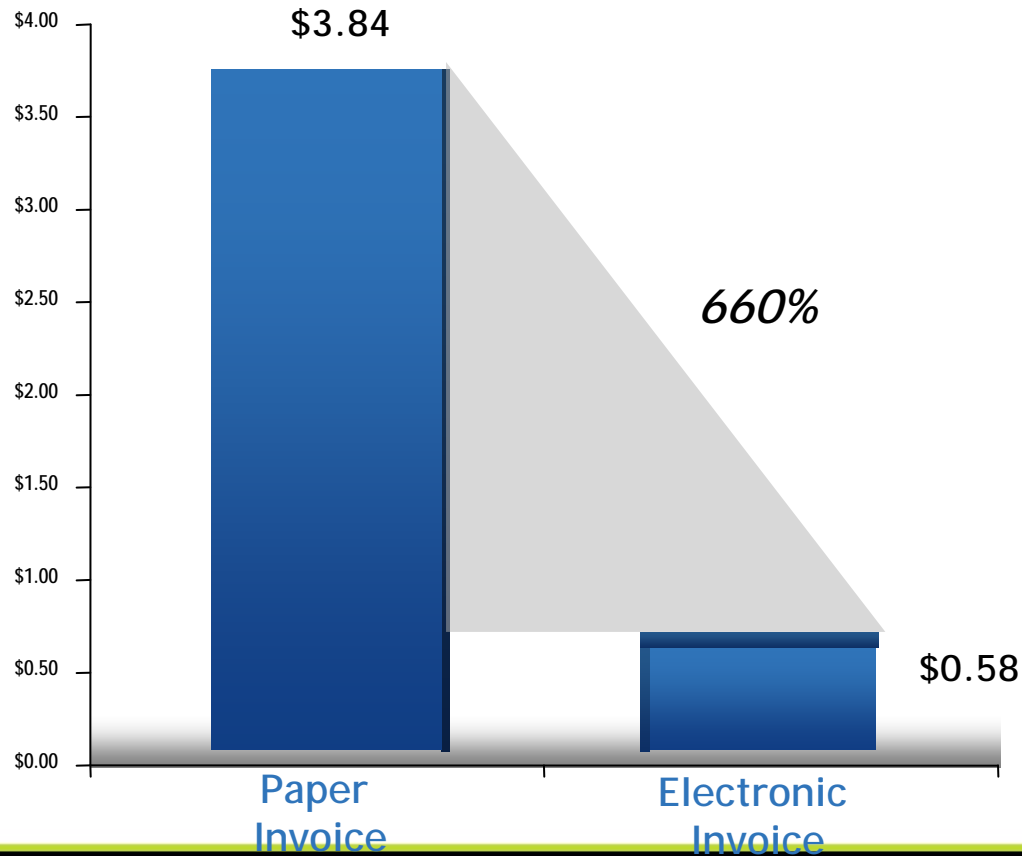
- Opportunities & Myths
- Invoice Entry Automation Options
 - Peer-to-Peer
 - Supplier Networks
 - Optical Character Recognition (OCR)
 - Outsourced Scan to Data
 - Putting it All Together
- Leveraging Each Option Appropriately
- Planning Your Strategy

Opportunities & Myths

What Can e-Invoicing Do For You?

Median Cost to Process An Invoice Per Line Item

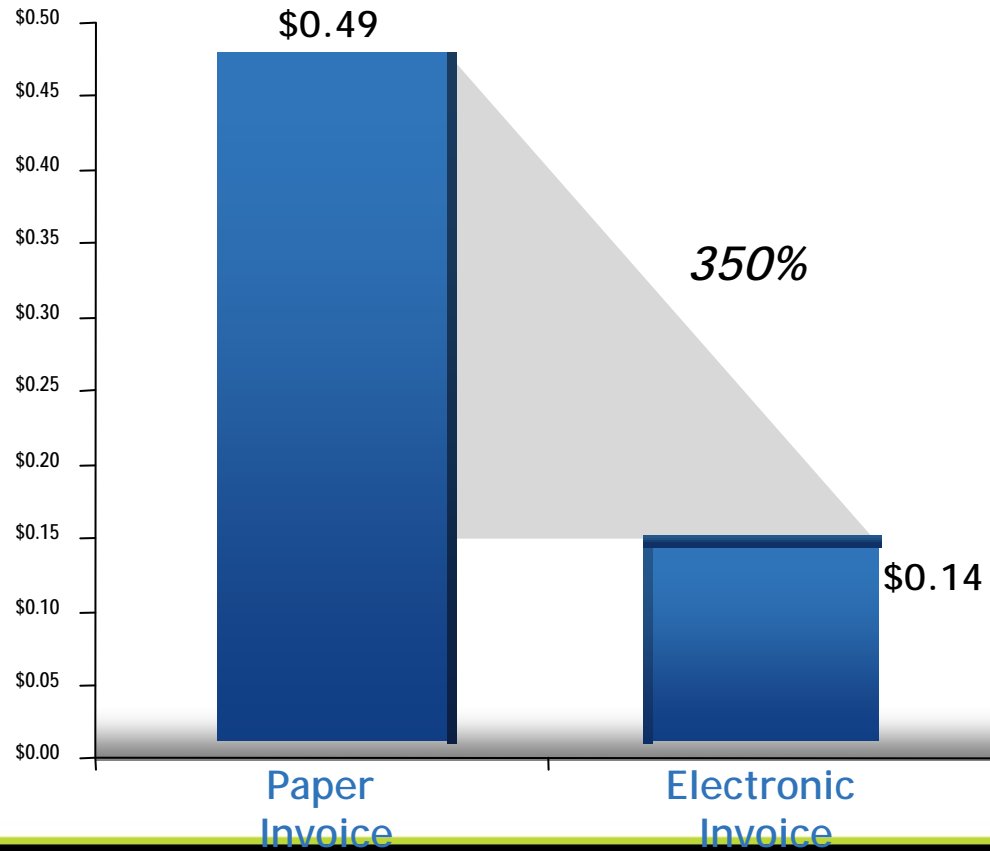
(Source: The Hackett Group)



What Can e-Invoicing Do For You?

Discrepancy-Resolution Cost Per Line Item

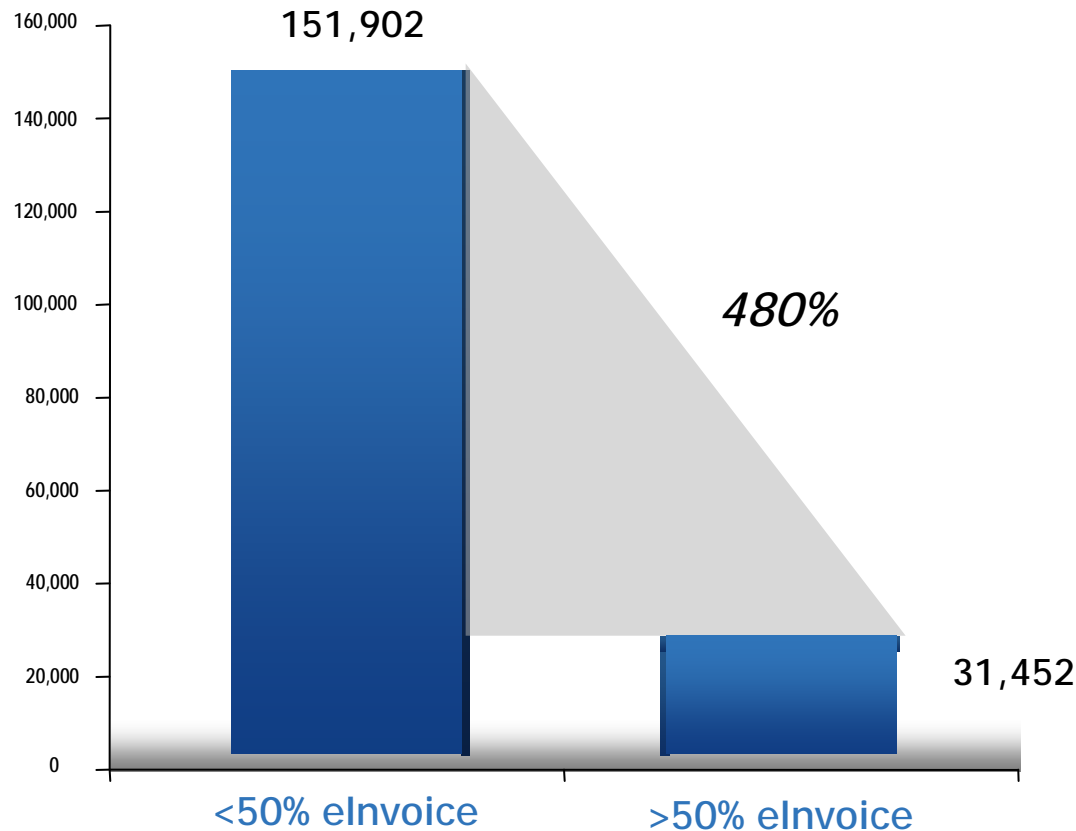
(Source: The Hackett Group)



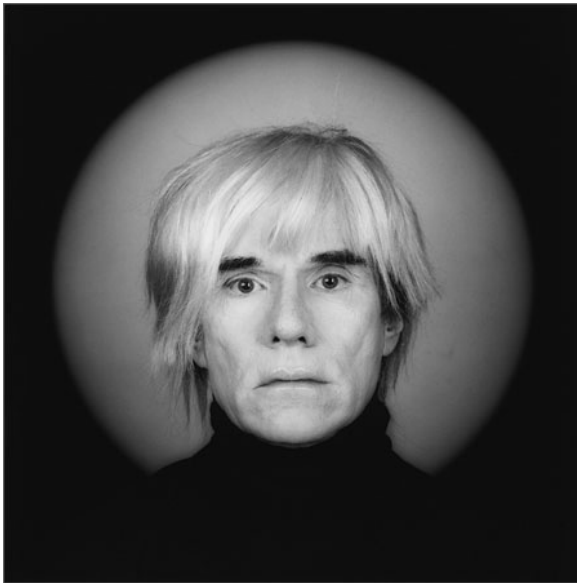
What Can e-Invoicing Do For You?

Line Items Processed Per Employee, Per Year

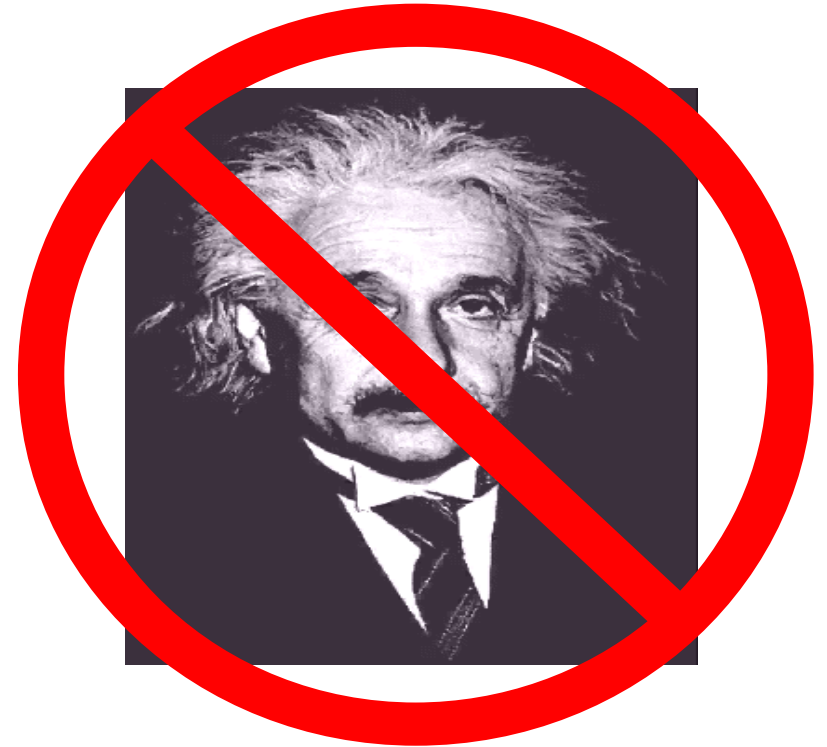
(Source: The Hackett Group)



Guiding Principles



Vs.



Myth #1: It's Just invoice entry...
This should be straightforward stuff, right?

Guiding Principles

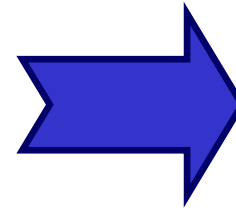


Vs.



Myth #2: Companies should standardize on one entry automation solution...

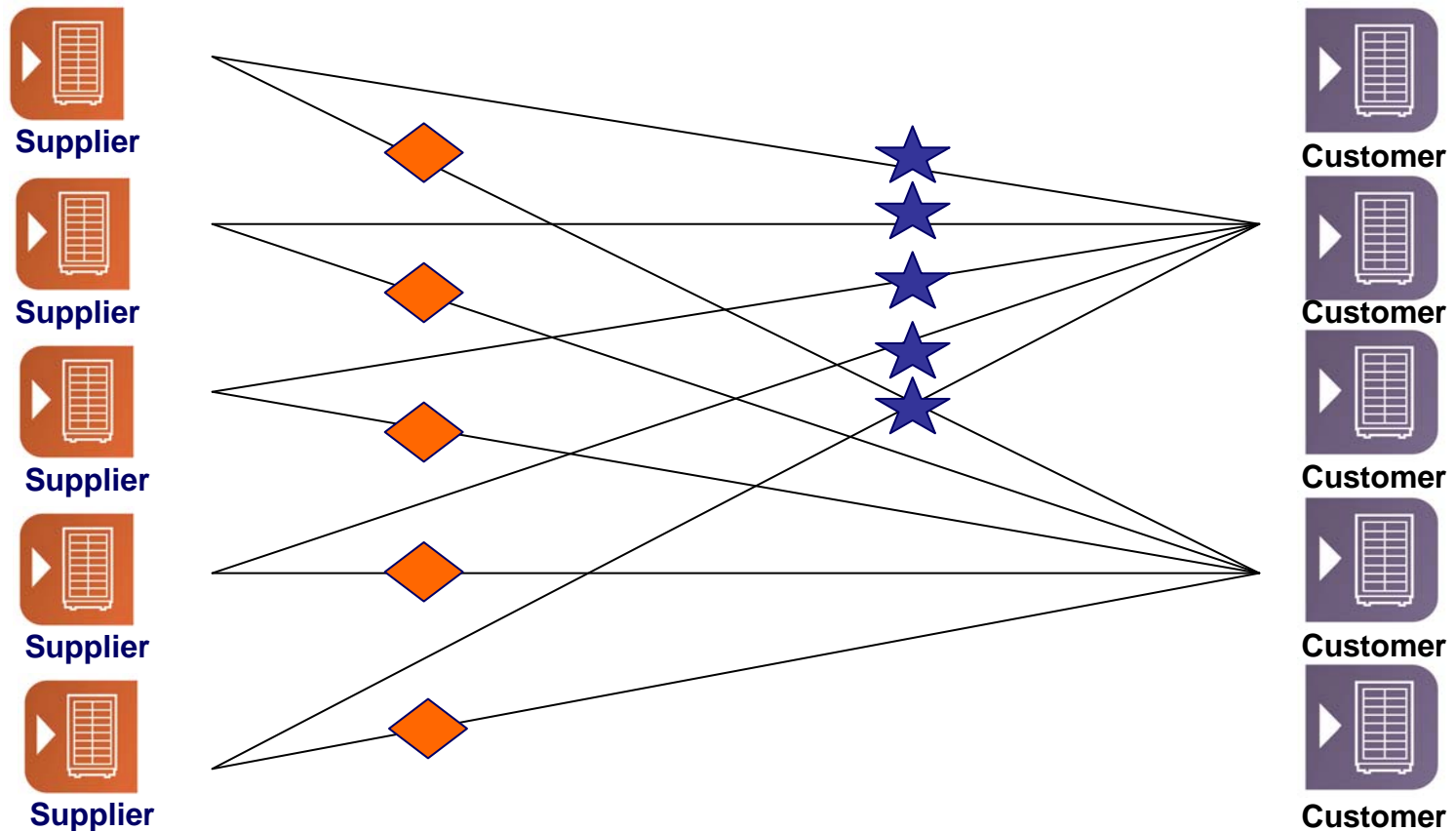
Guiding Principles



Myth #3: Invoice entry automation means a "lights-out" AP department...

Invoice Entry Automation Options : Peer-to-Peer Electronic Invoicing

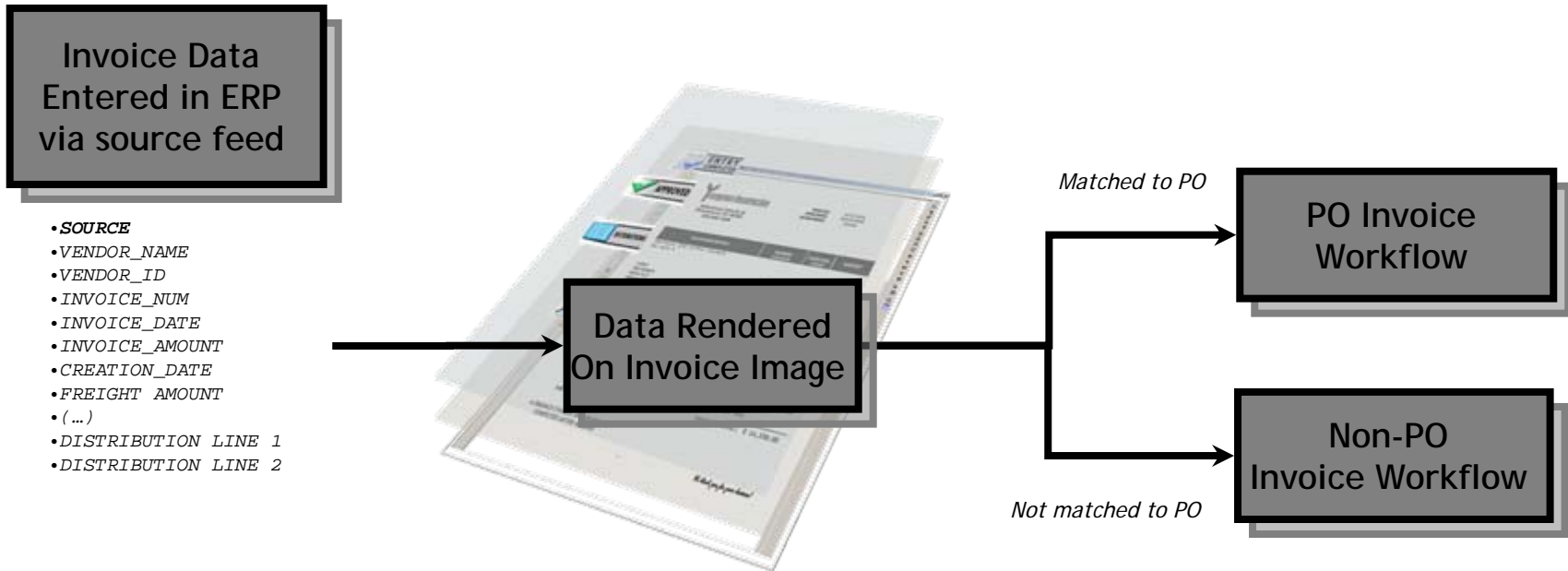
Peer-to-Peer e-Invoicing



Peer-to-Peer Connections

- Highly successful and *time-proven model*
- Relatively *high start-up costs* (> \$15k per supplier)
- Relatively low ongoing costs for high-volume suppliers
- Initial set up process is *time- and resource-intensive* for both supplier and buyer
- Controlled by supplier and buyer, allowing for *relationship-specific processes and/or custom ERP validations*
- Financial Process Solution: Invoice Rendering

Invoice Rendering



Invoice Rendering

Rendered Invoice

Source A

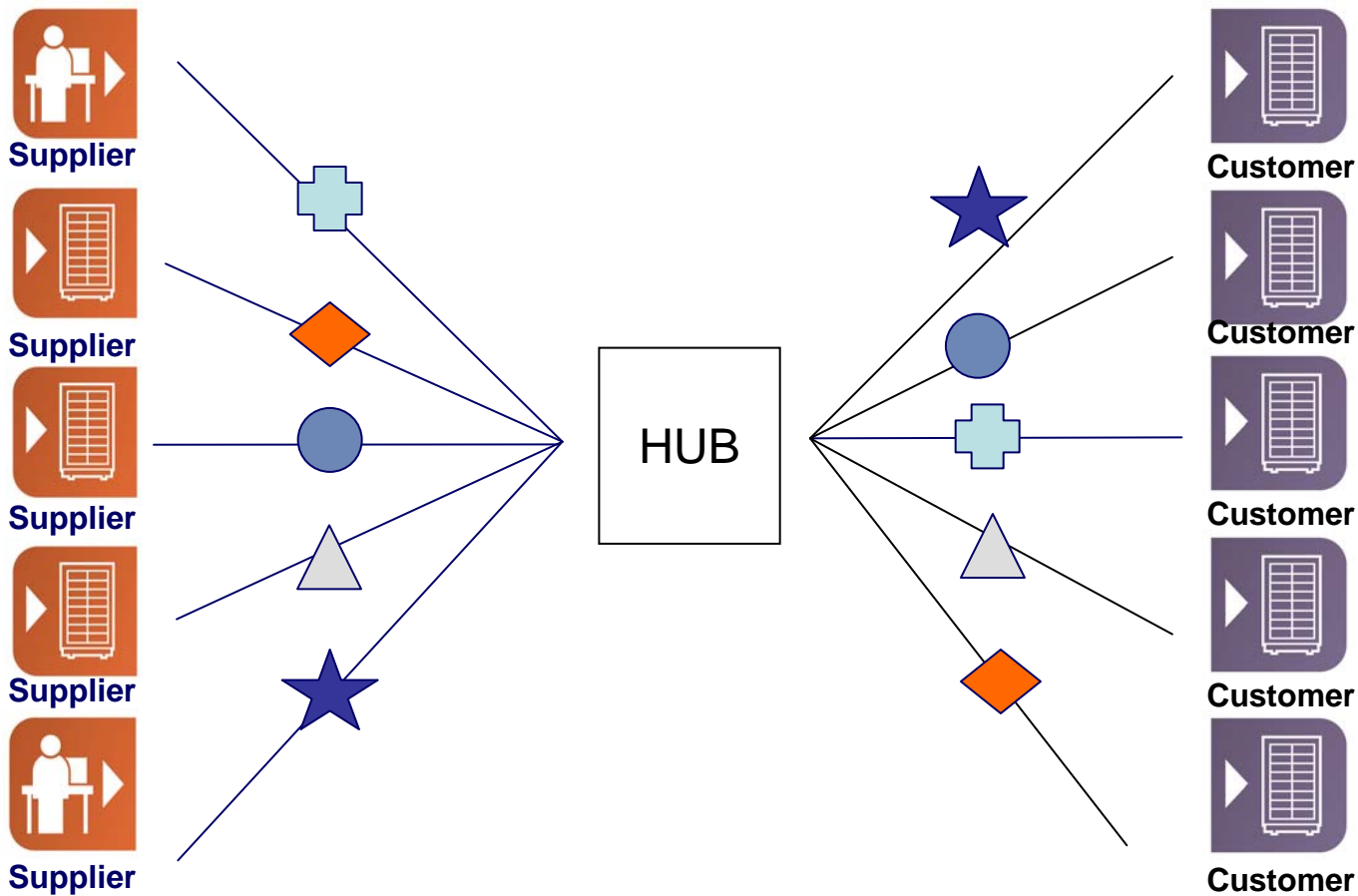
Supplier:	AUTO HAUS (5108)	Invoice Date:	30-JUL-2005
Supplier Site:	AUTO HAUS	Creation Date:	13-FEB-2006
Invoice Number:	EDICDCPO001		
Invoice Amount:	50.00		
Freight Amount:	.00		
Line Count:	1		

No.	Type	Line Description	Qty	Price	Amount
1	ITEM	Vision Pad - Bronze (PO Number 4300, Line 1)	1	50.00	50.00

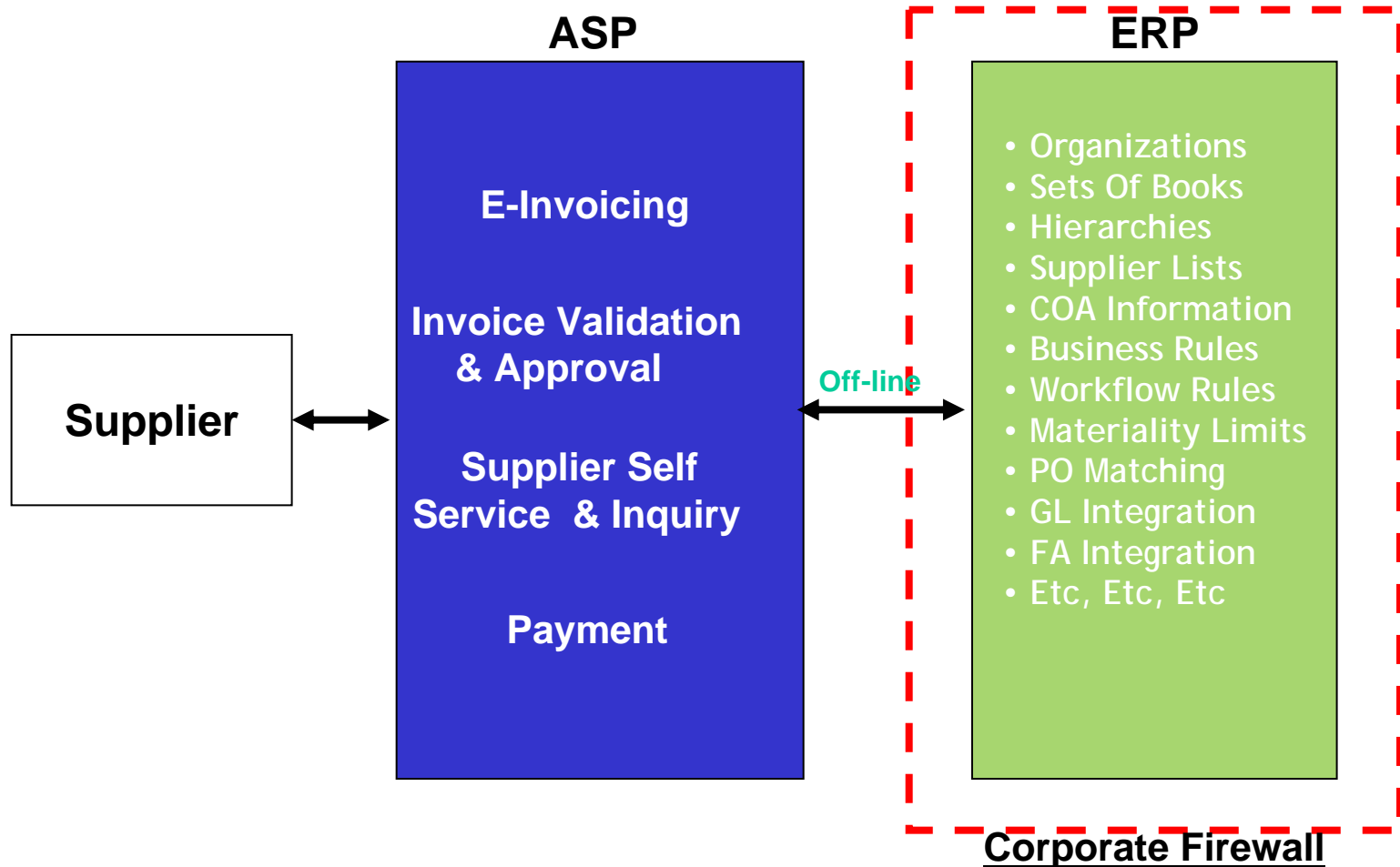
Total: 50.00

Invoice Entry Automation Options : Network-Based Electronic Invoicing

Networked Connections

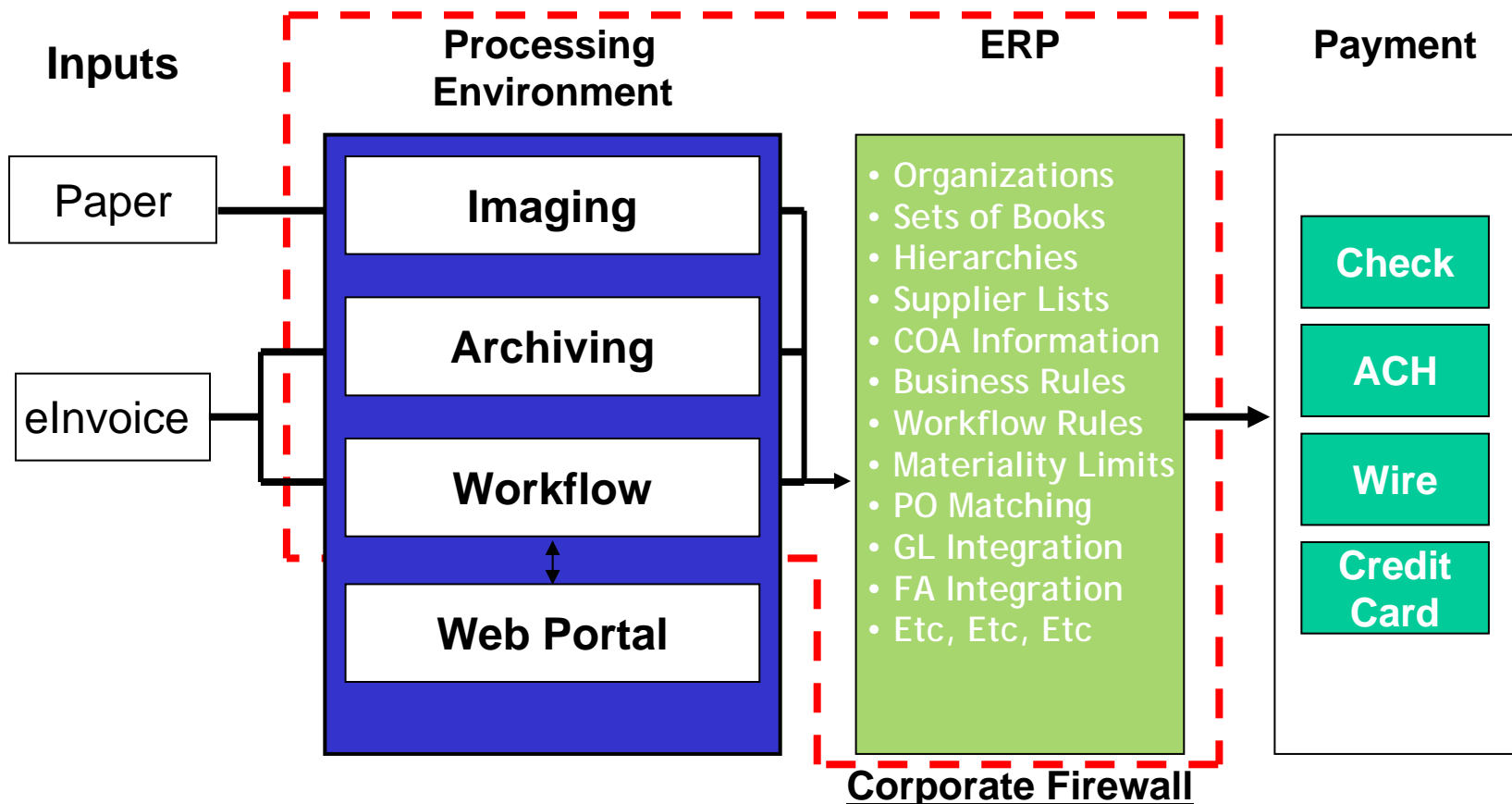


EIPP Approach



Best-of-Breed Approach

Automated Invoice Processing – “Best-of-Breed” Approach



Pro's & Con's

	EIPP Model	Best Of Breed Model
Pro's	<ul style="list-style-type: none"> • Relatively easy to implement • Requires relatively limited IT resources • Solution is available relatively "out-of-the-box" 	<ul style="list-style-type: none"> • Tightly integrated with the ERP • Source agnostic (paper v. electronic) • Software platform is independent of marketplace • Ability to select best components for the job • Ability to leverage existing investments
Con's	<ul style="list-style-type: none"> • Not integrated with the ERP system • Designed specifically for e-Invoices, not ALL Invoices • AP platform tied to a proprietary electronic marketplace • Suppliers must conform to spec's • Supplier enrollment is not a primary focus 	<ul style="list-style-type: none"> • Potentially requires more extensive IT support • Not always an "out-of-the-box" solution, although some exist

Network-Based Invoicing

- Still relatively young... *Mixed results to-date*, but analysts are clearly optimistic
- Broad range of capabilities in the marketplace
 - Global Presence & Process (VAT, Certifications, etc)
 - Barriers & Time To Supplier Entry
 - Suppliers *“Truly” In Network* Vs. Key To Portal For Critical Customer
- Upfront validations can be included, allowing for *relationship-specific processes and/or custom ERP validations*
- Financial Process Solution: ERP connection technology

Invoice Entry Automation Options : Optical Character Recognition

From Hackett...

“Ideally, businesses would receive all invoices electronically, as this allows the invoices to be most cost effectively processed. However, for a majority of companies, most invoices will still be generated and received on paper for the foreseeable future.

“The processing of paper invoices can be vastly improved through the use of Optical Character Recognition (OCR) Technology. This has greatly matured in recent years...”

Kurt Albertson & Kai Zabel
The Hackett Group
“Using OCR To Improve Invoice Processing”

Optical Character Recognition



ERP & Workflow Environment

Optical Character Recognition

- Significant improvements in recent years
 - General Recognition Rates... *Focus on keystrokes not percentages*
 - Templates Vs. Rules Based Engines
 - Knowledge Bases still require some ongoing management efforts
- Minimal, if any, change management with suppliers
- Data input is limited to what can be reliably included on an invoice. This presents *potential barriers to “touch-less” and relationship-specific processes*
- Financial Process Solution: ERP connection technology

Invoice Entry Automation Options : Outsourced Scan To Data

Outsourced Scan to Data

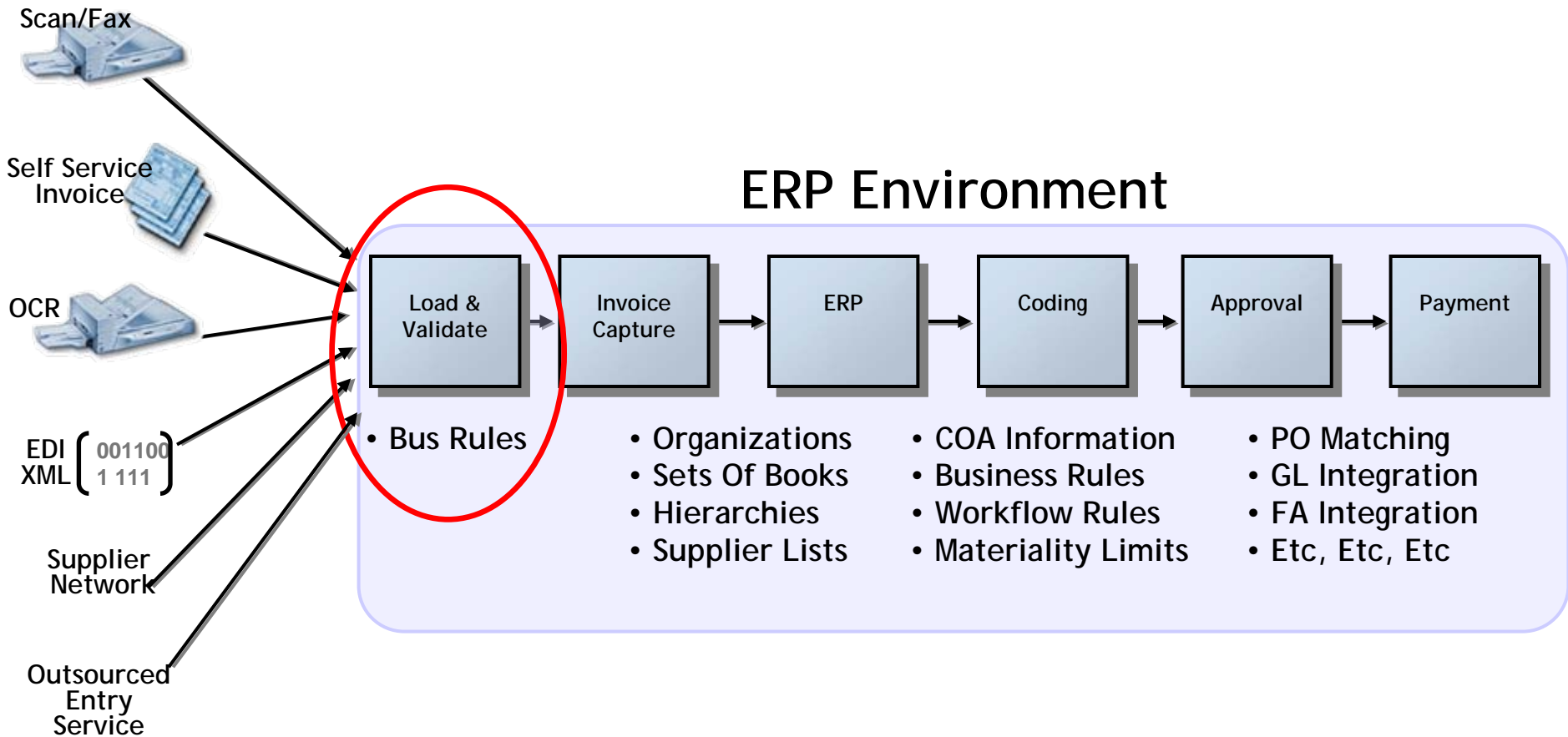


Outsourced Scan to Data

- Same Technology Pro's & Con's As OCR
- Workflow components aimed primarily at smaller organizations that lack premier ERP
- Generally viewed as an alternative to in-house OCR
- Financial Process Solution: ERP connection technology

Putting It All Together... Invoice Entry & Workflow Processes

Integrate with Existing Systems



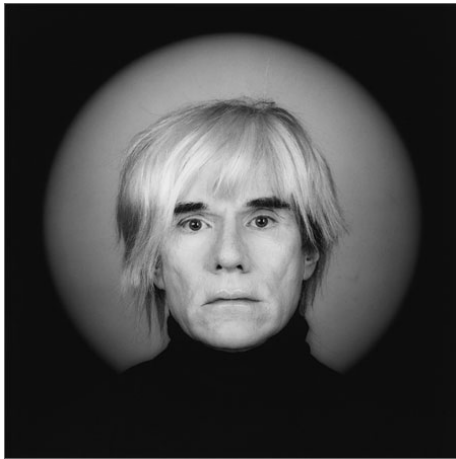
Leverage The Investment You've Made In Your ERP

Moving Forward...

Segmenting the Supplier Base

Reminder...

Strategy is important, but don't lose sight of the goals...



&



...To automate invoice entry in any reasonable fashion,
& leverage a single set of business processes & controls



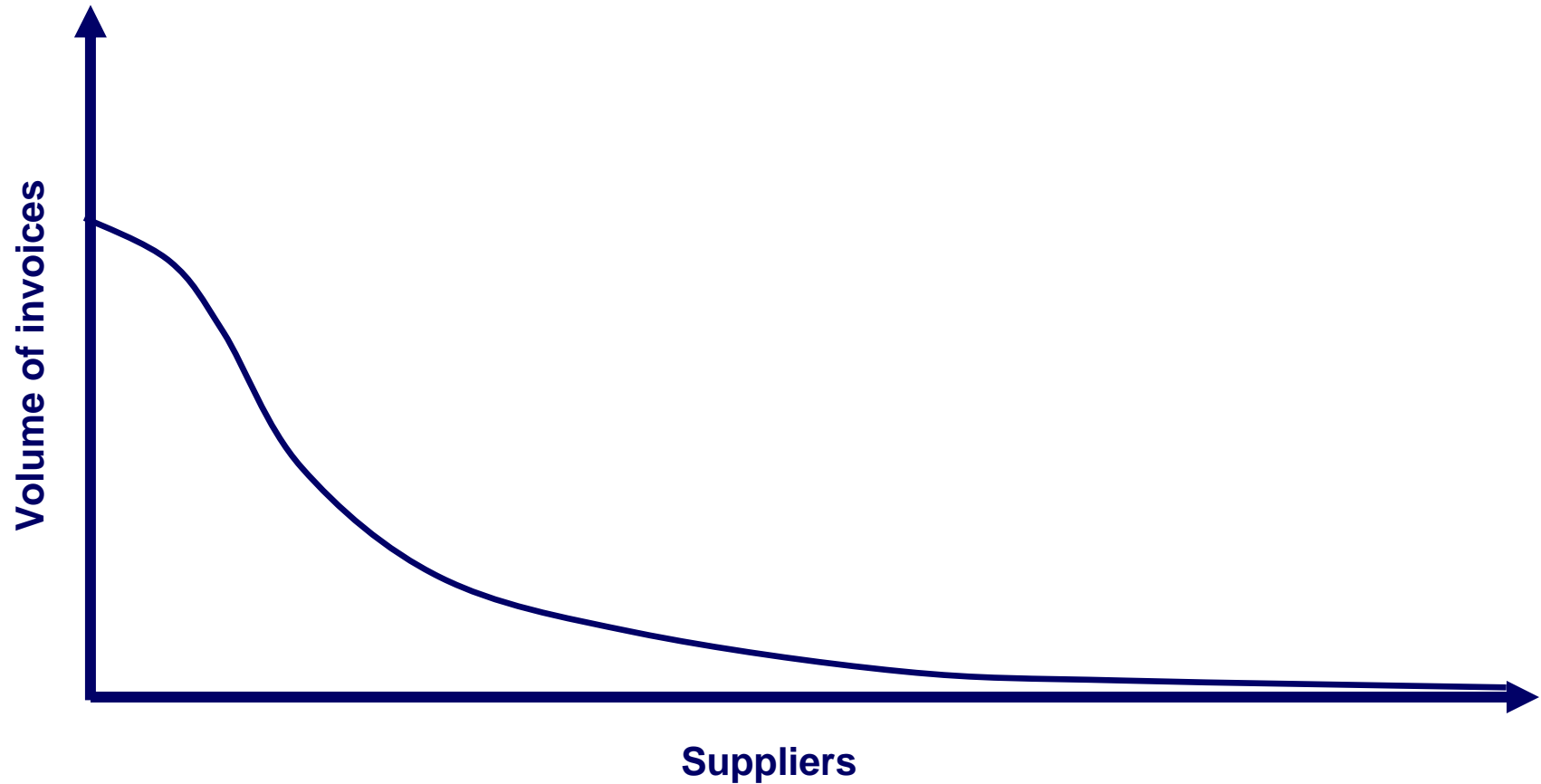
Hackett's Strategic Approach...

....To Technology Driven Optimization:

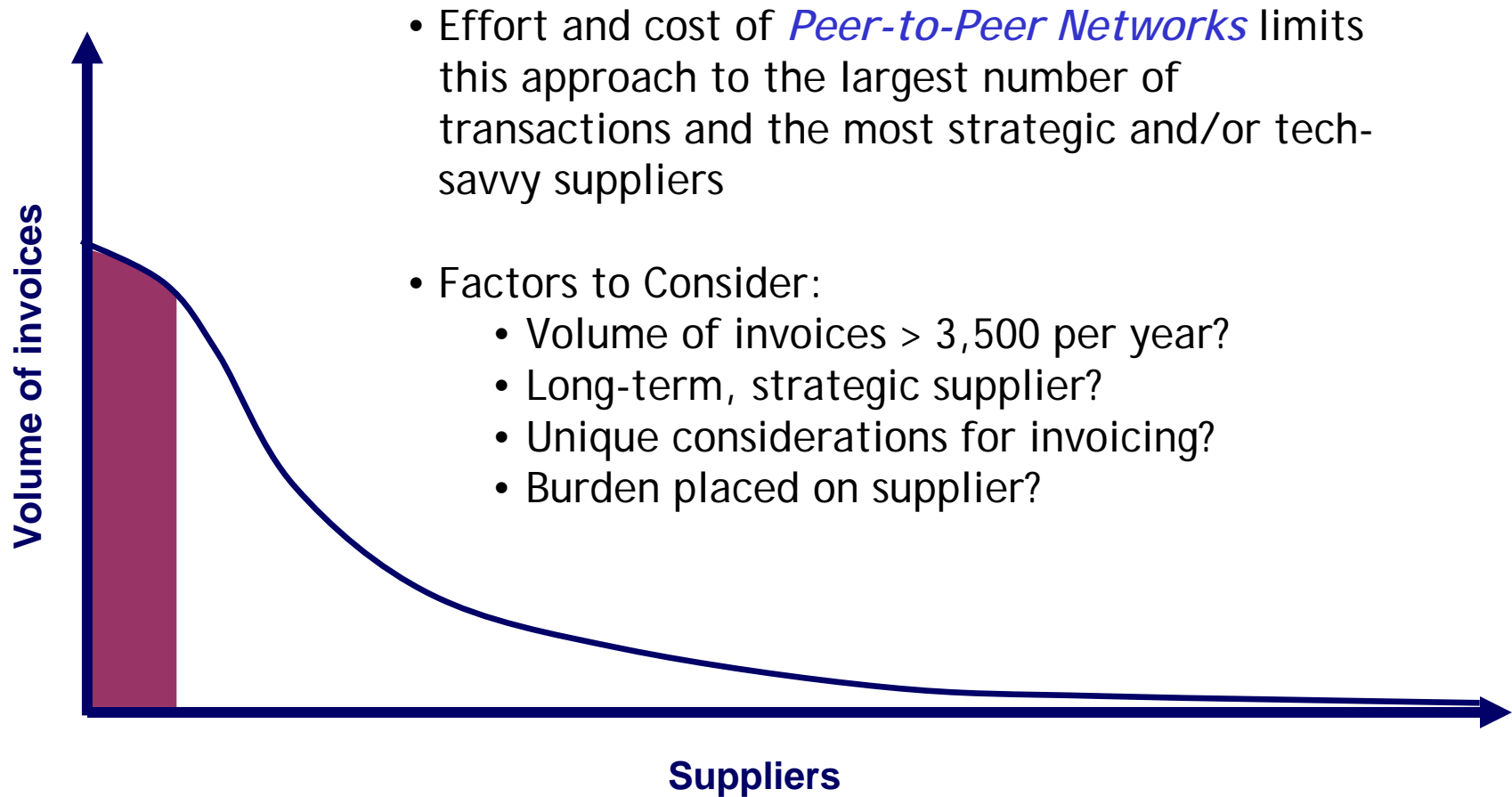
1. Set up end-to-end strategy focusing on supplier base optimization, means of invoice receipt, and a risk/control balanced processing approach.
2. Implement a workflow tool for routings and approvals.
3. Move as many transactions as possible to electronic transmission
4. Implement an OCR application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



Invoice Distribution Curve

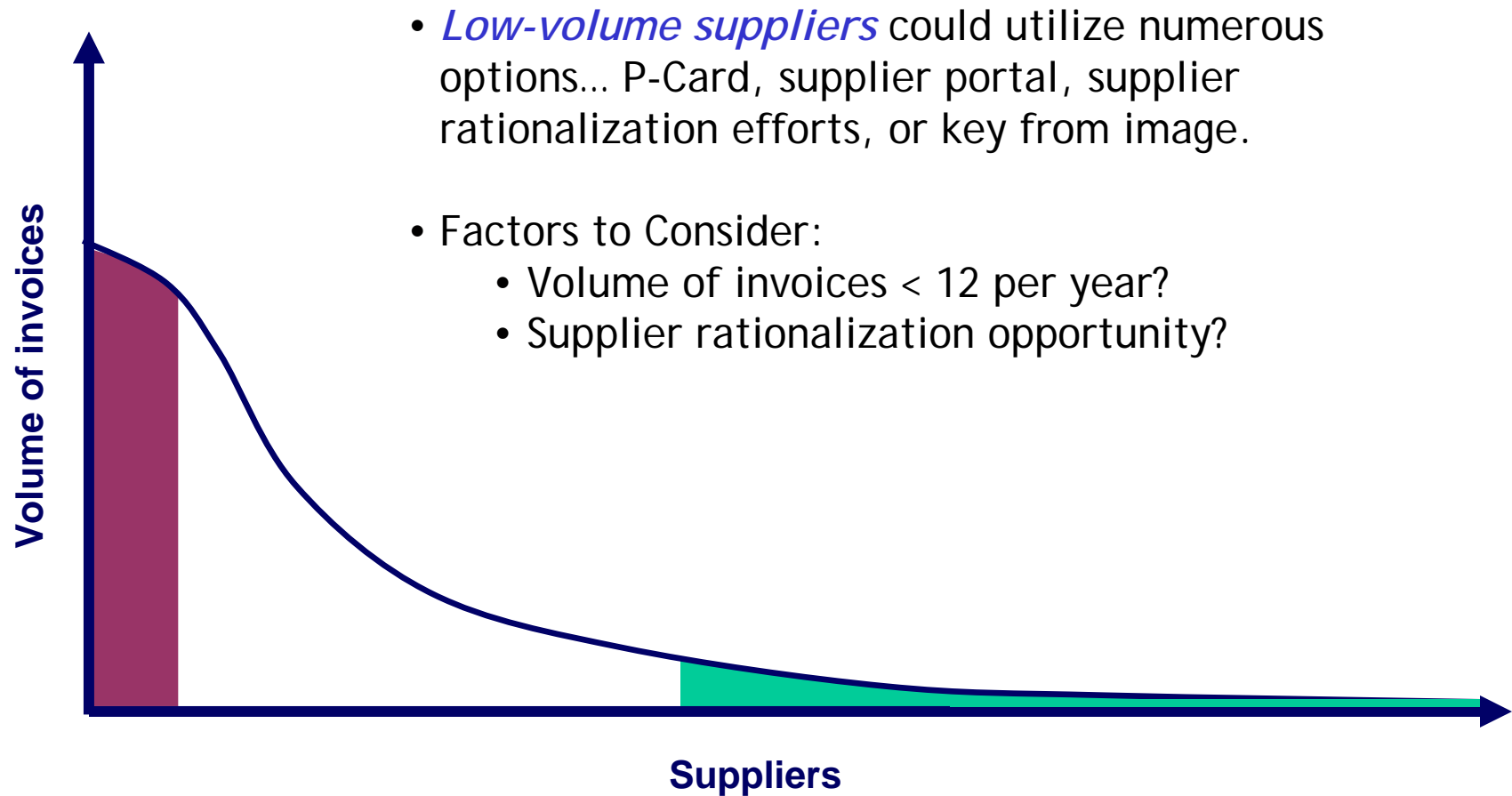


Proposed Strategy



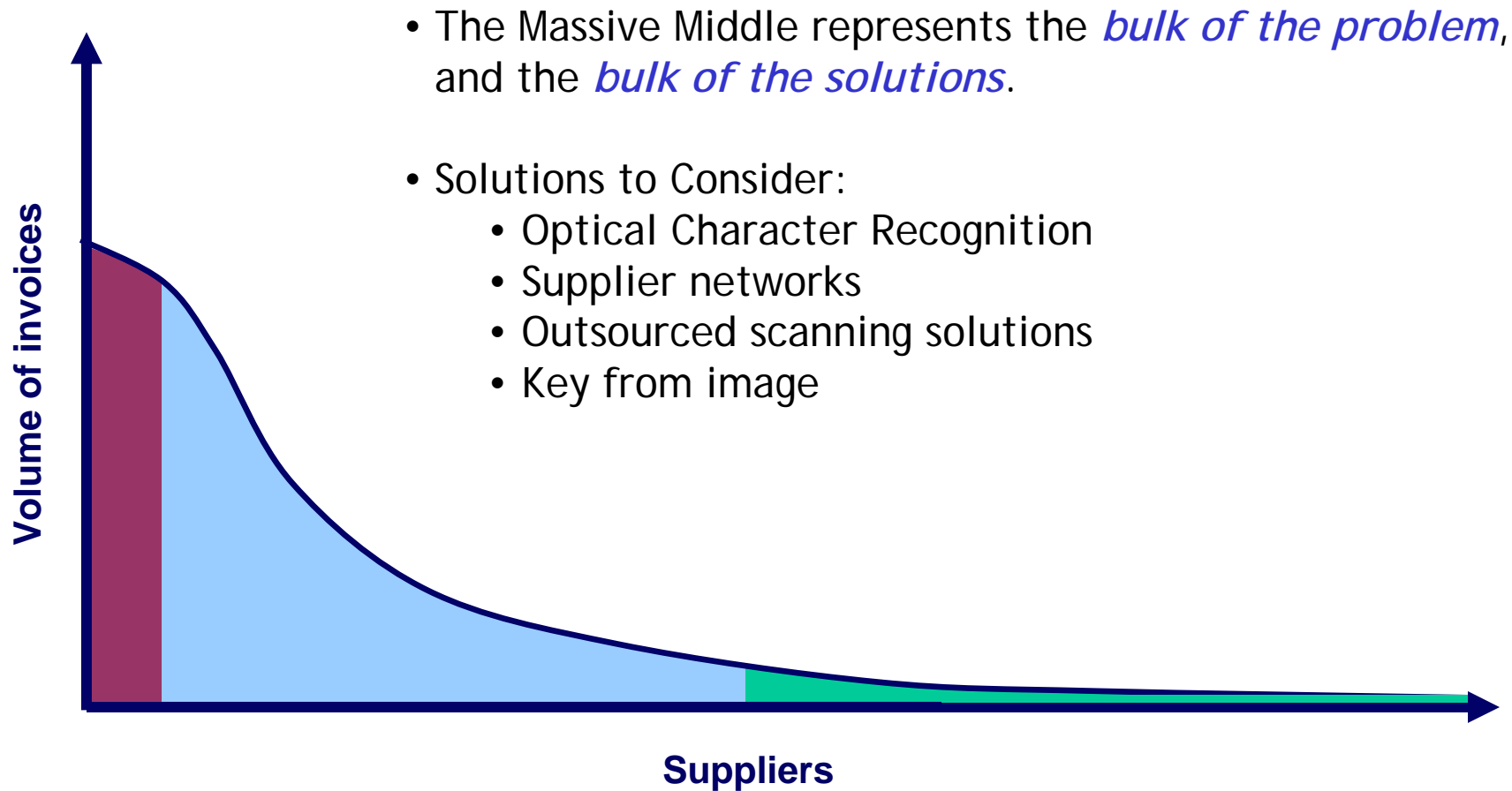
- Effort and cost of *Peer-to-Peer Networks* limits this approach to the largest number of transactions and the most strategic and/or tech-savvy suppliers
- Factors to Consider:
 - Volume of invoices > 3,500 per year?
 - Long-term, strategic supplier?
 - Unique considerations for invoicing?
 - Burden placed on supplier?

Proposed Strategy

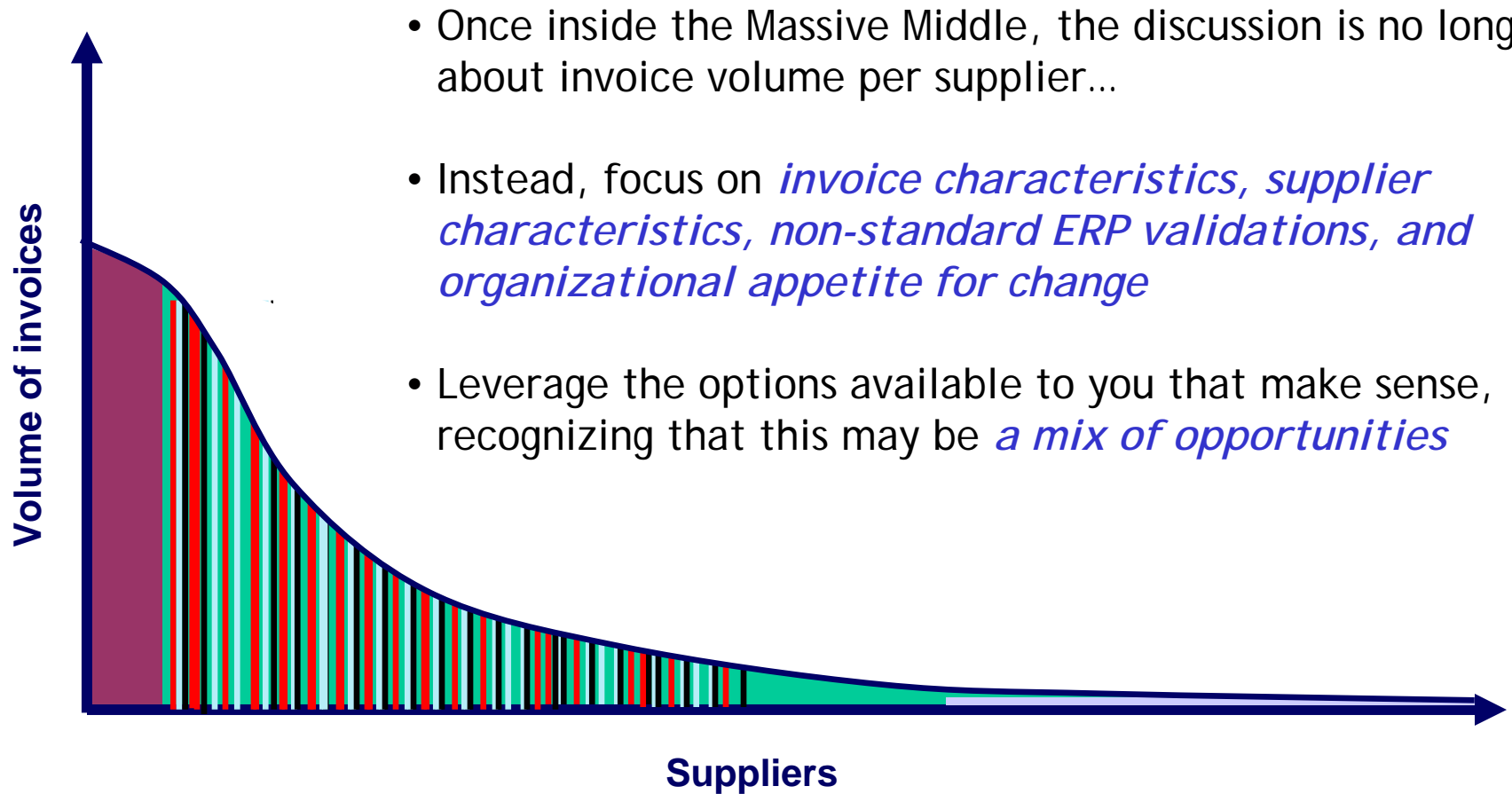


- *Low-volume suppliers* could utilize numerous options... P-Card, supplier portal, supplier rationalization efforts, or key from image.
- Factors to Consider:
 - Volume of invoices < 12 per year?
 - Supplier rationalization opportunity?

"The Massive Middle"



Inside the "Massive Middle"



- Once inside the Massive Middle, the discussion is no longer about invoice volume per supplier...
- Instead, focus on *invoice characteristics, supplier characteristics, non-standard ERP validations, and organizational appetite for change*
- Leverage the options available to you that make sense, recognizing that this may be *a mix of opportunities*

Review “Massive Middle” Solutions

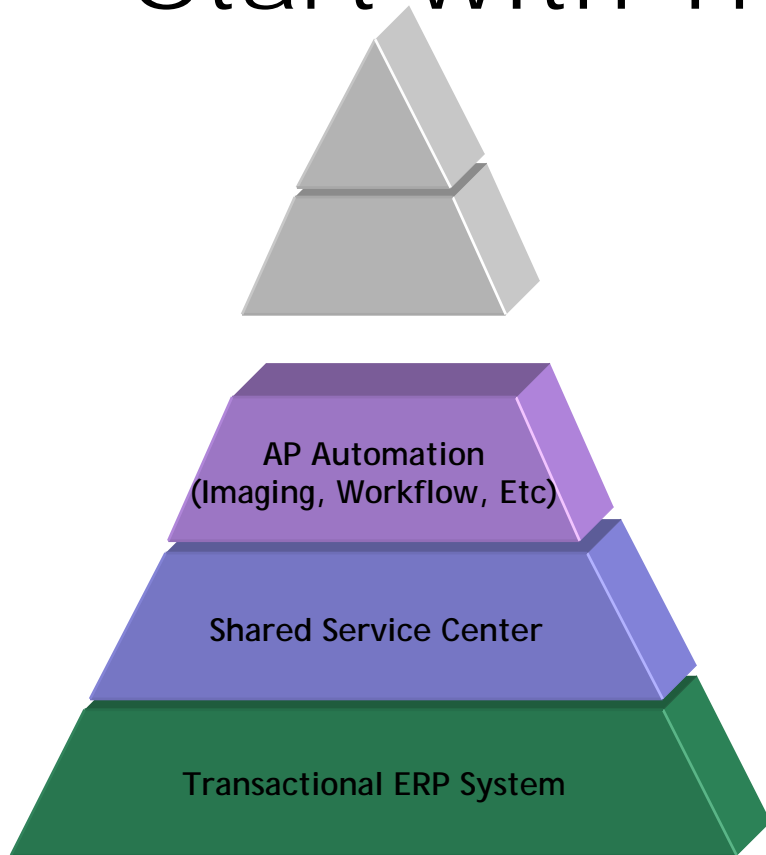
- Supplier Networks
 - Best Fit: **Long term suppliers** that don’t warrant Peer-to-Peer
 - Look for ease of supplier adoption and number of suppliers **beyond the manual web portal interface**
- Optical Character Recognition
 - Has **improved dramatically** in recent years, but **no magic bullet**
 - Lesson Learned: **Evaluate custom ERP validations & data elements**
 - Lesson Learned: **Line items for PO-invoice only**
- Outsourced Scanning
 - For large organizations, a solid way to **round out a program**
 - For smaller organizations, perhaps a single solution
 - Similar “Lessons Learned” to OCR
- Don’t Ignore The Other Things...

Organizational Considerations

- Annual invoice volumes (this presentation aimed at large companies with 1MM+ Inv/Yr)
- Time required to meet certain goals
- Availability of low-cost labor to key from paper or image
- Strength/availability/flexibility of technical team
- Mix Of PO-based invoices vs. Non-PO
- Degree of change within vendor list

Planning Your Strategy

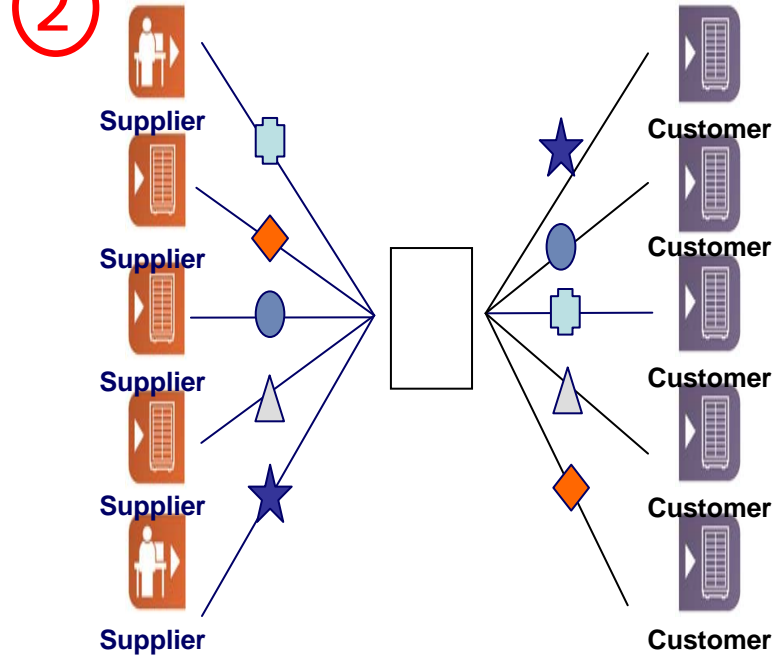
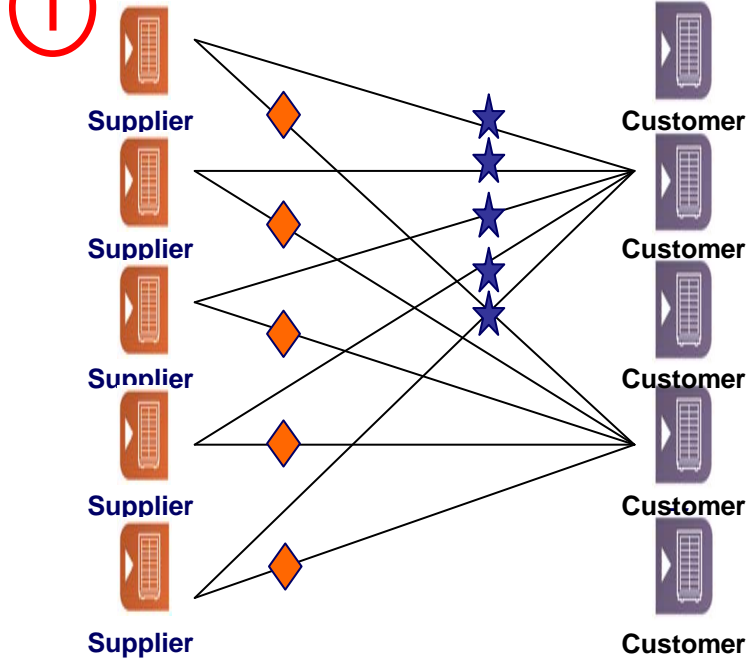
Start With The Fundamentals...



- Strong Transactional ERP System
 - Full procure-to-pay process
 - Hierarchies, limits, tolerances, etc.
- Organizational Unit Accountable For AP
 - Entry, resolution, project mgmt, etc.
- Robust Imaging & Workflow Tool
 - Business process defined
 - Exception handling defined
 - Strong controls in place
- *Ensure a SINGLE process for ALL invoices*
- *Identify required data fields & validations*

...Then Look To Further Automate

① Pursue Electronic Invoices ②



Use Peer-to-Peer Where Warranted...

- High-volume, long-term supplier
- Technical proficiency at both parties

Look Supplier Network Options Next...

- Barriers associated with supplier adoption
- Solutions for duplicate invoices
- Identify opportunities for ERP-specific requirements

3 Round Out With OCR



Template-Based Solution
Identify Required Data Validations
Understand Appropriate Expectations

Bring in house for long-term solution
Outsource for short-term or low-volume solutions

4 Ensure A Single Set Of Processes

Metrics, Analytics, Reporting

Scan/Fax



Self Service Invoice



OCR

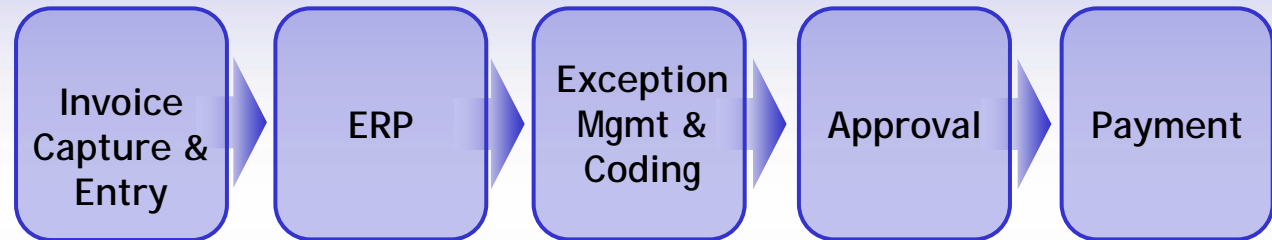


EDI (001100)
XML (1 111)

Supplier Network

Outsourced Entry Service

ERP & Workflow Environment



- Organizations
- Sets of Books
- Hierarchies & Limits
- Vendor Supplier Lists
- Chart of Account Information
- Business Rules

Thank You!

Questions?

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