



Will Your Imaging Implementation Stall or Go the Distance?

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Document Imaging for Accounts Payable

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Invoice imaging is often the first stop on the road to automating an accounts payable process. Imaging tackles the toughest part of a manual AP process: paper. Once a paper invoice is translated into an electronic document, it becomes much easier to manage.

Once an invoice is electronic, technology can help AP process and pay it almost effortlessly. Most Enterprise Resource Planning systems can automatically match and approve invoices for payment with little human intervention. ERP systems and automated workflow solutions can route non-po invoices and invoice exceptions for necessary approvals.

In an AP environment, the most common form of imaging is front-end imaging, which involves scanning an invoice as soon as it enters the organization. Translating the information on the image into something your accounting system can understand typically still requires a staff member to manually key the data. However, increasingly organizations are relying on optical character recognition (OCR) technology to translate the data automatically.

Ultimately, electronic invoicing is the goal to which many organizations aspire, eliminating paper altogether. However, getting a significant portion of an organization's vendors to adopt a particular e-invoicing standard or technology is a challenge. Because implementing front-end imaging internally does not require vendors to make changes to their billing processes, it is easier to start there than with e-invoicing.

Speed Bumps in Implementation

Invoice imaging is often considered the gateway technology to increased AP automation, although it is a fully-featured solution in itself. As with any technology or process improvement, implementing an invoice imaging system comes with its fair share of headaches.

The single largest roadblock standing between an organization and a successful imaging implementation is having an inefficient invoice handling process prior to automating. Automating an inefficient manual AP process will invariably lead to an inefficient automated one. Other hurdles that organizations must overcome include unrealistic goals for the project, choosing the wrong technology for their needs, and not securing executive-level buy-in.

When done correctly, an imaging system can cut costs for AP and the organization. By connecting with an automated workflow system, you remove the friction of paper invoice workflow and speed up your invoice approval and payment process. With OCR, you can go a step further and reduce data entry

costs. To ensure a successful imaging implementation requires work before, during, and after the technology is installed.

Know Your Current Process

Before picking up the phone and calling potential solution providers, it is important to take a step back and evaluate your existing process. Only when you understand what does and doesn't work in your invoice receipt, data-entry and workflow processes will you be ready to improve it with automation.

"Companies often try to automate their existing process and their existing process is broken," says Charlie Kaplan, vice president of product marketing for imaging provider Brainware. "They throw technology at it and are disappointed when they find out they've automated a faulty process."

Before automating, look for inefficiencies in your process to correct. What are you doing and what would make it better? For example, perhaps vendors send invoices to individual business units, so AP doesn't even know the company has been invoiced. Maybe p-card vendors are also sending invoices. Solve those problems, don't embed them in a new process. A strong as-is process ensures a strong automated process.

Set Appropriate Goals

Understanding your current process can also help you determine the goals and scope of your imaging project. For instance, if your AP process is highly decentralized it may not be beneficial to implement OCR, because OCR is generally advantageous only when there is a large volume of invoices being processed in a particular location. A decentralized organization may be better off manually keying. The goals for your imaging project should be appropriate for your situation.

In addition to ensuring your goals are appropriate to your process needs, maximizing your return on investment should be a key goal. Justin Kline, co-founder of Advanced Capture Team, a firm specializing in selling and implementing imaging and workflow systems, says that all goals should be tied to ROI-driven requirements early in the planning process.

The best way to maximize ROI is to rollout an imaging system in phases, focusing on the most critical areas of the business first. "For example, for a company scanning 1,000 invoices a day, OCR will help them significantly reduce data entry costs," he says, "and should be a part of phase 1.

"Something like a vendor portal may be a good example for phase two," Kline says. "It's not going to reduce costs as much as OCR and, [if it were part of phase 1] it would drag the scope of phase 1 too far."

It is important that organizations realize that implementing AP automation is more than simply a technology project. It is a change management project too. As such, they should approach it carefully and have a firm understanding of the process being automated.

Get Superiors Involved

Any change management project faces an uphill battle without high-level sponsorship within the organization. Without management buy-in, preferably at the executive level, an imaging project will have difficulty getting off the ground and will likely be under funded.

Kline says that company executives spearheading the initiative can remove roadblocks and help make important decisions. They also act as the project's cheerleaders and ensure it receives money and attention from the organization.

"It might seem obvious, but you wouldn't believe how many customers we've worked with where it's the controller sponsoring the project and he gets into big battles with the IT guy," Kline says. "Projects go slow and they go over budget because of problems like this. If the CFO and CIO are not sponsoring the project to begin with, it can become a mess, especially if the imaging solution will span multiple departments."

Part of your imaging implementation process – long before you have called the first provider – should be to approach senior-level management and get them onboard. Having the CFO onboard or another executive ensures your organization takes the project seriously.

Know Your Solution Providers

Once you've clearly outlined the goals for your project and got management onboard, it's time to choose a provider. With all of the solution providers making promises about what their software can do, choosing the best provider for your needs can be intimidating. You must be able to cut through the noise.

"As the market for AP automation matures, much like in any technology market, all the providers start to say the same thing and the customer gets confused," Kaplan says. "There are AP solutions out there where the message is identical but when you dig beneath the covers and try to understand what they do, they focus on two completely different business problems."

Kaplan and Kline say that buyers need to see past the "market speak" when evaluating providers. The best way to get a full understanding of the capabilities of each provider's technology is to have them demonstrate it for you. Once you've narrowed down a list of providers, invite them to your office and have them walk you through the process of scanning and indexing an invoice.

This becomes especially important if you are considering implementing OCR. To get the full benefit of OCR you want to be confident that the system can read the data from your suppliers' invoices and index the documents correctly. When you bring in your potential providers, have them run your invoices through the technology, not their demonstration invoices; then you run them through yourself. Make sure the system works as efficiently as advertised.

Also be sure to ask about other organizations using their solution. Have the provider give you several references. Then call and talk with them and discuss their success with the solution.

"You need to do your research," Kaplan says. "You need to be savvy about what you're buying and what it is the providers are actually saying. You should always ask for a proof of concept."

Getting the Technology Right

Organizations have a variety of technology options to choose from when implementing an imaging program. Whether you are scanning invoices and manually keying or relying on OCR to translate the documents, there are several choices to make.

One of the most crucial decisions is choosing the scanner. According to Kline, selecting the right scanner for your needs is the most important technology decision to make, especially if you plan to implement OCR.

"In accounts payable, with the different sizes, shapes, colors, and contrasts of invoices, having the right scanner and ensuring it will feed the paper drives the amount of labor associated with scanning," he says. "You want to look at the quality of the paper versus the scanner too. All scanners vary in how they feed paper."

Ten years ago, a major hurdle for many organizations interested in imaging was the cost of the scanner. At the time a quality scanner capable of running a competent OCR engine would cost about \$15,000. However, Kline says that today a quality scanner can be purchased for less than \$3,000, which includes the maintenance plans many sellers offer.

OCR Changes Gears

The cost of scanners is not the only positive change in imaging technology during the last ten years. OCR technology is now maturing to the point where it can be truly beneficial to AP departments. Historically, OCR was most useful for structured documents that were consistent regardless of the source. OCR engines translate information into machine-readable text more easily when they know ahead of time where to find the data.

Because invoices often vary from one vendor to another, providers have traditionally struggled with offering OCR technology that supports unstructured documents. The common solution was to load templates for each vendor invoice into the OCR engine, but this can become tedious when applied to a large number of vendors.

"Once you have a global economy that's processing invoices from 147 countries and 90 different languages, it becomes a nightmare to try to maintain a set of templates or keywords that recognize every kind of invoice," Kaplan says. Today providers assert that OCR technology can translate approximately 70 percent of an organization's invoices automatically with no configuration.

Tire manufacturer Goodyear recently implemented a companywide OCR project that has seen strong success since going live in April 2008. Goodyear's Accounts Payable Manager Jami Dunphy says that although the company is still checking the OCR accuracy of each invoice while they become more comfortable with the technology, the number of OCR errors is low.

"What will eventually happen is it [the invoice] will stop at a verifier's desk if the OCR confidence is low," Dunphy says. "Even though there are still touch points, we're not keying in any information. If it's right, you just tap through. If it's wrong, you just type over the field."

Taking OCR for a Test Drive

When implementing OCR as part of an invoice imaging system, it helps to have a centralized scanning facility. For example, Goodyear included their imaging/OCR implementation into a wide-scale centralization project. All invoices are now scanned and imaged in the corporate office. Rather than risk overloading the formerly decentralized business units with the new technology, Goodyear chose to roll it out gradually.

"It's part of the change management process," Dunphy says. "You've got to get the people who are the processors comfortable with the technology. It helps ensure staff buy in."

Goodyear's OCR plan was rolled out in four phases. First, the company ran all incoming raw materials invoices through the OCR engine. Raw materials were selected first because those vendors' invoices typically match the purchase order and would require very little manual matching.

Following raw materials, Goodyear began using OCR on all the invoices for an internal business unit that had expressed reluctance at switching from manual invoice processing. Although Goodyear expected to have difficulties with this division, their OCR implementation went flawlessly. "They had no idea we weren't keying in their invoices," Dunphy says.

Once that division was comfortable with the quality of their invoice images, Goodyear then began scanning invoices for their Canadian operations. Goodyear decided to separate Canadian invoices from the rest of the implementation because of the different currency and tax rules. The final phase is service-related invoices.

"With raw materials, we were going for the quick win," Dunphy says. "The second group was one that was unsure after the centralization that they were going to pull it off. They were our biggest barrier. Our third group was Canada with the currency and tax differences. Once service-related is onboard, it will be the big bang! We're rolling it out for everyone."

Although Goodyear still has AP clerks checking the accuracy of all images once the invoice is scanned, Dunphy says once the final phase of the implementation is complete, then only images that the OCR engine labels "low confidence" will be checked.

Getting Your Money's Worth

OCR is a valuable tool that can significantly reduce data entry work, but it is not for every organization. It can be expensive to implement. Organizations must determine whether the cost savings justify the expense. Kline says that OCR is best suited for organizations that process more than 400-500 invoices a day from a central location.

However, this does not mean that smaller organizations and decentralized organizations cannot reap the benefits, just that it may take them longer to recoup their investment. Kline says that an organization processing 500 invoices a day may take between six to nine months to earn a return on investment. An organization processing 200 invoices a day might take 12 to 18 months to see an ROI.

The way organizations achieve ROI from their imaging systems has changed over the years. In the past, solution providers trumpeted headcount reduction as the chief benefit of automation. Organizations were told that by implementing OCR imaging and workflow, they could take their 20-person AP department down to four. "That's just the tip of the iceberg," Kaplan says.

"You can save a considerable amount of money just by reducing manual labor cost, but the real value comes by determining when is it you want to pay invoices," he says. By implementing an imaging and workflow system, organizations can approve invoices quickly and pay at or before terms, helping them secure early payment discounts.

Training and Ongoing Maintenance

When an imaging system is installed, the solution provider or an implementation partner will help the organization integrate it into their AP process. Part of this includes connecting the new scanning and OCR technology to the buyer's ERP and accounting system. Most imaging systems can easily integrate with common ERP systems such as SAP, Oracle, and PeopleSoft, and can connect to smaller ERP and legacy systems with minor configuration.

What many providers will not do is build your automated workflow system from scratch. Kline recommends organizations have an existing workflow system in place before contacting a provider. "Just because of how exception-riddled AP can be, we recommend that you have some kind of workflow behind the capture if you are scanning on the front end."

Kline adds that the workflow system does not have to be advanced. It should be capable of handling nominal exceptions such as an invoice arriving from a new vendor. It could be as simple as routing new vendor invoices to accounting to add them to the vendor master file. While more complex workflow systems will make your invoice processing more efficient, they are not required.

Training to use an imaging system does not require much time. According to Kaplan, an AP employee can be trained to use the scanning equipment within an hour. For someone who will need a deeper technical understanding of the solution, you may spend as much as eight to 12 hours. But, this individual will be qualified to create new processes and make changes to the imaging system. Providers typically give users the choice of training in person or on the computer using Web-based resources.

It is a good idea for users to maintain a relationship with their imaging provider after the initial implementation. Many providers offer maintenance programs where they will come in once or twice a year to check on the organization's progress. However, some organizations prefer not to do this. They are free to implement the system and operate completely independent of the provider from then on.

The Keys to a Smooth Implementation

Implementing an imaging system has several benefits for the organization. It can eliminate paper from the invoice approval process, reduce headcount, improve chances of capturing early payment discounts, and increase visibility. However, none of these benefits can be realized if the organization's implementation strategy is flawed.

An effective imaging implementation involves understanding the process you are automating, having management support, setting appropriate goals, thoroughly researching potential providers and technology, and making sure the benefits will outweigh the costs. Following these steps will help ensure that your invoice imaging system is a cherry, not a lemon.