

MANAGING ACCOUNTS PAYABLE

ISSUE 07-09

Our 12th Year Serving the AP Profession ■ www.AccountsPayable360.com

SEPTEMBER 2007

How the AP Dept. at JohnsonDiversey Dodged Outsourcing

AP departments that don't embrace technology could be in for a rude awakening. One day, you'll get the word from the top brass that your department is being outsourced or offshored. That's what one AP department was concerned about—but the steps they took helped to ward off this harsh action.

Close Call

JohnsonDiversey, a member of the SC Johnson family of companies, is the second largest global industrial institution cleaning product manufacturer. It's a global Fortune 1000 company that employs about 12,000 employees worldwide today, with about 4,000 of them in North America.

The company's European operations were being consolidated into a shared service center—and the U.S.-based AP operation was a likely candidate for this. "We knew we were being considered for outsourcing," recalls Brenda Jackson, the company's AP manager. "We knew we needed to do something. And we realized that whatever we did had to be technology driven and would have to be a quick hit for us."

Speaking at our recent Paper-Free AP conference in Chicago, Jackson and Anna Gilewski, the company's AP supervisor of process improvement and IT management, talked about how their commitment to best-in-class AP processes and technology has made their operations run efficiently—and has helped keep it in-house.

Technology Evolution

One of the first things AP did in terms of automating the invoice process was to implement Electronic Data Interchange (EDI) to receive invoice data electronically. For them, this was not successful—not because of their lack of ability to implement it, but because of the nature of their suppliers and purchasing operations.

"We had a lot of difficulty getting our suppliers on board with EDI," recalls Jackson. "The suppliers we were able to get on board were inventory related. It's a lot easier in the manufacturing environment to get the raw materials and the chemical vendors on board. But we really struggled with getting our very large and small vendors to conform to our EDI guidelines. Also, every employee who works for JohnsonDiversey is basically a buyer. That is, any employee can go out and make a purchase for a nonproduction item."

In terms of imaging, AP started out with back-end imaging, which is done after an invoice is processed. This worked out fine, but AP still had to grapple with invoices on the front-end. "We struggled with trying to find invoices that were still to be processed. You get a call from the CEO who wants to know the status of an invoice. So we'll have the processors scrambling, looking through the papers on their desk, trying to find out the status of that invoice, and it was very hard to do that."

AP knew it needed a more comprehensive solution. That was where front-end imaging and workflow came in.

Before going to front-end imaging, the process was this: The mail comes in; the mail is opened; the invoices are separated (inventory items, non-inventory items, PO, non-PO, and discounts); and then sorted by invoice date. At any point in time, if a vendor calls about an invoice, someone has to sift through all of the manila folders of invoices.

"Our turnaround time for our vendors was unsatisfactory, and all of this manual processing was keeping our personnel from verifying and approving invoices for payment," recalls Gilewski. "We knew we needed to improve our performance."

Easy Pitch

One of the main obstacles for many AP departments in implementing new technology is selling the idea to top management. In JohnsonDiversey's case, the AP department found ways to make the sell-job easier.

"Prior to installing the new invoicing system, we initiated an automated T&E process," recalled Jackson. "And one of the things we demonstrated from that very quickly was the visual aspect and controls that automation brought to us in the T&E area. We could prove to management that we could achieve a greater degree of expense visibility and reporting, and could do the same with our invoicing. The T&E experience gave us the knowledge of what we wanted to see, what controls we wanted, the visuals we wanted, and the reporting we wanted out of the new system. So, we're already a little bit ahead in the game because we knew what we were looking for as we're building our case."

Another factor AP used for leverage was the culture of the company. "The company has always had the philosophy of being best-in-class—that's a big drive for our executives," she said. "They want to be leading-edge, they're very technology driven, and there's a lot of emphasis on cost containment."

Also, the European group was looking for a vendor for this technology, so AP's plan was consistent with that effort.

System Selection

The company considered a number of vendors before selecting a solution from Brainware in February 2006. To get up and running, AP and the provider met to discuss what the system was to do. A map of the desired invoicing process was developed to help with this. The system was then demonstrated with actual company invoices. "It was very encouraging to see that we could actually look at our process with our own data and go from there," says Gilewski.

AP went live with the new system in June 2006. It could have been sooner, but AP wanted to conform the new process to what they wanted it to be—not just automate the process as it was. The point here is to use the opportunity to improve the process before automating it.

"Going into this process, one thing that we learned is to look at your process and decide what you want to do to make it better," she says. "Don't try to take the solution and put your current process into that solution. Understand where your greatest efficiencies will come from, keep an open mind to internal and external customers regarding your processes, and always look for those tweaks within the system."

When they were planning to go live, they figured they would do what most others do—go with a small pilot using a few batches and then increase it if it works well. But this ended up going faster than they thought. "Once we decided to go live, we took those manila folders and actually dumped them into the entire system," recalls Gilewski. "From the second day, we were live with all our invoices. So the four weeks of backlog was actually in our system by the second day and we were turning around invoice payments."

The new process actually contains a four-part process. The invoices are: 1) opened; 2) scanned; 3) processed into a verifying application and then into a workflow tool; and 4) sent right into the ERP system.

In terms of systems, the company has two actual financial systems: JD Edwards, which is the main ERP system, and a system known as BPCS (Busi-

ness Planning and Control System), which is sets of applications designed for manufacturers that help manage the supply chain. Consequently, some invoices that relate to inventories are run through BPCS, so they have to be separated between that system and JD Edwards. Ultimately, all of the payments come out of JD Edwards.

OCR Success

Most AP departments that image invoices do not use data capture technology to extract data from the invoice to eliminate manual input. This technology, generally referred to as Optical Character Recognition (OCR), has had somewhat of a troubled past. That is, some AP departments tried it in the past but had trouble with accuracy rates. But OCR has come a long way, and more AP departments are taking a fresh look at it. JohnsonDiversey is one of those companies—and they've had a very positive experience using OCR.

"I want to say [the accuracy rate is] in the high 90s," says Gilewski. "When we first started the process, they told us certain things would not be read by OCR, such as handwriting, bad fax copies, and black background with white writing. But now I see that OCR is actually reading those kinds of things, so it makes my eyes pop because it wasn't even supposed to read those things. So, we are seeing that OCR is reading some handwriting. And even from the worst fax copies, it's picking up the numbers. The black with white writing is still kind of tricky. But again, I would say that the accuracy rate is in the high 90s."

Results

The new system has triggered benefits on a number of different levels. In addition to cost savings and productivity gains, the new setup has had positive effects from a staff relations and development standpoint.

Hard-dollar benefits: We're now processing more invoices with 10 people than we were before with 16, and we've been able to re-deploy personnel to more knowledge-value tasks," says Gilewski. "Our cost per transaction went from \$10.56 to \$7.42. Also, the amount of invoice discounts taken increased from 13% to a current 23%."

New AP Technology Helps Staff Development at JohnsonDiversey

Transitioning from a paper-based AP department to an automated setup can have some very positive effects on the staff, as the AP department at JohnsonDiversey discovered. This is very important. "One of your biggest resources and most valuable asset is really your people," says Brenda Jackson, the company's AP manager. "No one is coming into AP anymore because they want to be strictly data processors; it's not what it used to be. We have to develop our people." Technology can help achieve this. Here are some of the staff-building factors that came out of her department's implementation of an invoice imaging, workflow, and data capture system (see accompanying story).

Redeployment. Jackson could have cut more staff that she did, but she didn't. Instead, she redeployed some of them to more value-added tasks. "Our AP department is actually a resource for several other departments," she says. "We're doing things such as participating in SOX testing, because we can free up the workers now to develop them in other areas."

Realignment. The new automated process allowed AP to take the talents of the staff and properly align them with the tasks within the department. "People aren't just sitting there, pushing out the paper," she says. "We were able to meet with everybody and ask them what they wanted to do and what they wanted to do more of. "Then, we realigned the department, and everybody felt like they had a piece of the pie and a part to play within the department. So I think everybody is feeling a little more value added."

Cross training. In the past, there was no time for cross-training, so the staff did not have the flexibility they wanted with their time off. "We never allowed, for example, time off at month-end, and they all knew it. I can grant it now, and they're so excited, which only makes for a happier work force."

Better-educated candidates. "AP has always kind of been considered an entry-level position—and it still is to some degree. But it's being looked at more robustly by college graduates. When you can bring new technology into your department, you're making it much more competitive for yourself. And you're making it much more enticing to capture these individuals, because they're coming in and learning this new technology. They're not just sitting and keying off of an invoice all day and becoming very disgruntled"

Less absenteeism. One of the surprising results stemming from the new technology is a decrease in sick calls from staff members. "Our absenteeism has dropped significantly, particularly through the winter months," Jackson says. "We're now in June and I believe we've had just one sick day on our staff since New Year's. Our staff has been there every single day, unless it's a scheduled vacation day. That's phenomenal, and we really didn't anticipate it when we rolled out the new system."

The new setup has also helped with payables aging. "When we started we had about 200 invoices that were over 60 days," she continued. "Today, I think we're at 12 invoices that are over 60 days."

"We had about 93,000 invoices that we processed last year and about 7,700 vendors," she said. "We do very little EDI, just because it has to do with our ERP system and its lack of technology. We actually are now pursuing the EDI vendors that we do have to get off EDI, so that we can either have them e-mail the invoice or get it back to paper copies so that we can do it through our workflow system."

Transparency: The workflow, because it's Web-based, means full visibility into invoice status. "At any point in time, we're able to see where an invoice stands," she said. "So, if a vendor calls, we just look into the system. We can see if it's in our ERP system, we can see if it's with a buyer pending approval. There is now an audit trail, and we have reporting capabilities. So, the reporting, the control, and the visual alone have been worth its weight in gold."

Ongoing quality: The new system has also freed up enough staff time to be able to get away from paper-pushing and instead monitor the process for continuous improvement. "We now have the time to look and say this is how we were doing it, question whether it is the most efficient way to do it, or is there another way that we can make this process a little more efficient? So by allowing AP to have more time to actually think about what they're doing instead of just pushing out the paper to get it paid, we've actually implemented several more efficiencies since we went live."

Today, AP at JohnsonDiversey is no longer a cost center, it's a cost containment department, and it has partnered very well with the other departments within the company to show that it can add value to the entire organization. "While we don't have a

profit margin and we don't bring in revenue to the company, the value that we're providing to all the other areas has a dollar amount tied to it," says Jackson. "And we can prove that each and every day by the robust reporting that we're getting out of our system, and we can show the cost containment that we've provided to the company."

In addition to these tangible benefits, there are some very positive ripple effects that improve employee relations and staff development (see the accompanying sidebar).

Be a Visionary

"Part of our vision is based on the fact that we want close control over the process," said Jackson. "We want to see everything from end to end. We are fulfilling our vision as we move forward, so that during any point in the process—capturing the invoice, documenting the information, storage management, workflow, payment posting, and reporting—I can dive in when I get that call from the CEO or the president and see where an invoice stands."

She continued: "So, it's very important to know what your vision is before you even go into the solution. Don't worry about what you are doing today. See the future. See where you want to be two years from now, five years from now, whatever the case may be."

The outsourcing issue? The efficiencies the AP department produced with technology has made the outsourcing issue go away. The project has opened the eyes of the company because the efficiencies were achieved without any outsourcing.

"We didn't do any work outsourcing, and we're not outsourcing now," says Jackson. "And we actually have other departments looking to us to help them use technology to gain efficiencies in their departments because AP has done so well." □

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