Overcoming the Top Pitfalls of Manual Invoice Processing

AP WHITEPAPER

Introduction

At the Rancho La Brea Tar Pits, in the heart of Los Angeles, a vicious cycle has been repeating itself for 30,000 years. According to the Page Museum web site, warm temperatures from late spring through early fall would have provided the optimum conditions for entrapment in the sticky asphalt.

“Depending on the time of day or year, strong and healthy animals may have managed to escape, but others would have been held fast until they died of exhaustion, or fell prey to passing predators.”

Source: www.tarpits.org

To this day, visitors to the tar pits both large and small still become trapped in the sticky mess (including humans!). A similar pitfall is found in many accounts payable (AP) departments. Employees can easily become trapped in a cycle of tedious manual invoice processing that can feel like wading through tar—cumbersome, messy, sticky, slow, and even overwhelming. Just like at the tar pits, some invoices are paid promptly but others succumb to common processing pitfalls—including multiple document touch points from physical document preparation and document routing, time-consuming manual data entry, undetected errors, lengthy approval processes, missed payment discounts, management invisibility, and more.

Unlike the thousands-of-years-old cycle that is still continuing today at the La Brea Tar Pits, these pitfalls in invoice processing can be easily avoided, by watching out for and steering clear of a few common trouble spots.

1. Overlooking Hidden Costs
2. Getting Bogged Down with Manual Document Prep
3. Underestimating the Powerful Punch of OCR and Data Capture
4. Inefficient Manual Keying of Line Item Details
5. Decentralized Processing and Duplication of Efforts
6. The Long and Winding Paper Trail
7. Lack of Management Controls
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1. Overlooking Hidden Costs

Hidden costs associated with manual processes can really add up—and because they are not easy to determine, their damaging effects may be underestimated in current processing workflows. These hidden costs most often lurk in a manual processing environment, where the same invoice may be handled multiple times, even before an approval decision is made. In addition to contributing to escalating labor costs, this increases the chances of missing favorable payment terms due to lengthy processing cycles.

Manual document preparation, manual routing, manual data entry, manual exception handling, manual approvals, and even the cost of manually indexing and filing an invoice are contributing to this shockingly high expense. The more times an invoice is handled, the greater the chances of it being lost or misfiled, driving up hidden costs even more. According to “AIIM’s (Association for Information and Image Management) 8 Reasons You Need a Strategy for Managing Information — Before It’s Too Late,” the cost to locate a lost document can reach $120, and the cost to replace it, as much as $220.

More and more companies are realizing the positive benefits of seeking out and eradicating these hidden costs. Dramatic success has been achieved in environments where a high level of automation is present. In IOMA’s (The Institute of Management & Administration) AP Department Benchmarks and Analysis 2010, it was reported that companies who are processing invoices in a largely manual environment have processing costs up to 20 times higher than those companies who are processing invoices within an environment with a high level of automation.

By replacing manual processing with automation, companies are able to slash processing costs, and turn invoices around in hours instead of days. Other benefits of automation include quickly delivering accurate data to the accounting or ERP system and skyrocketing productivity without hiring additional staff. And, when business process management (BPM) is added to the mix, exception handling and approvals can easily be fast-tracked to streamline the process even further. BPM also gives management a transparent picture of corporate processes in real-time to foresee and correct any potential issues and make better decisions to improve cash flow.


1 AIIM, 2009, 8 Reasons You Need a Strategy for Managing Information — Before It’s Too Late.
Most work activities and processes require documents being processed to first be identified and sorted, and then routed to the appropriate person or department. With invoice processing, this is a necessary step before the actual work activity can begin. Where trouble lurks however, is in many current workflows where these steps are performed manually, a time-consuming step before any actual processing can begin. This seemingly innocuous task is not only tedious, but it is another factor driving up labor costs and further delaying the invoice process.

FACT: When asked “What is the biggest barrier to success in improving AP Operations,” the majority of respondents (52%) said an overreliance on people and paper-based processes was holding them back.

Source: PayStream Advisors, “Making a Killer Case for Automation”

A significant portion of manual processes, including document preparation, can be eliminated by bringing the automated workflow closer to the point of entry. Incoming mail, including invoices, can be automatically opened by specialized equipment without any presorting required. A single operator can then simply drop the contents of the opened mail onto the drop scan conveyor for immediate imaging. Some scanners are designed to accommodate the natural condition of the incoming mail—for example, documents that arrive crumpled, have staples in them, or come in a variety of sizes.

But advanced scanner capabilities are only a start. Every incoming piece of mail needs to be identified, sorted, and routed to the appropriate person, department, or network location. Typically, this classification step takes place in a mailroom, but what about vendors who receive invoices via email or other means? Often they must first print and route the emailed document, causing more paper touch points.

This is where capture workflow technology steps in, capturing the necessary data and automatically classifying the documents, then routing them to the correct person or department. And it does double duty by working with both the scanned paper documents from your mailroom as well as all the electronic documents.

Did you know? Paper isn’t going away. While the exact percentage of invoices received in a paper format differs based on several variables such as company size, number of vendors and industry, the number averages around 77%.

Source: Invoice Automation Benchmarking Report, PayStream Advisors ©2010
you receive. The software monitors incoming email, automatically identifying each document type and capturing key data elements to sort and route documents and their attachments to the appropriate person or network location.

The software can also accept files directly via fax, ftp, or scanned items, even documents scanned from remote locations, such as satellite offices. The documents are then identified, as an invoice, a piece of correspondence, etc., and routed to the appropriate department or person for data capture, approval, or even storage in a back-end database. The entire process can run completely unattended, automatically 24 hours a day.

The software uses a variety of methods to generate the most accurate results. Document images can be identified and routed according to physical attributes, such as height, width, or even file size. For example, the height of a document could be used to sort items such as remittance slips, payment checks, or customer registration cards from standard-sized documents. A classification rule could be incorporated into the processing workflow that states when the document height is less than four inches—such as in the case of payment checks—these documents are automatically routed to a bank deposit workflow, while the other documents are routed to a different workflow. This identification and routing schema can be used in concert with other classification methods—including image, text-based, and conceptual classification.

**CASE STUDY:** Leggett & Platt, Inc. Ace Accounts Payable and Accounts Receivable Automation

After implementing a complete accounting solution for AP and AR, Leggett & Platt is saving $1.6 million annually, and has increased the average number of invoices processed in 2010 by nearly 220% than in 2008, prior to automation—and all without adding additional staff.

Source: ECM Connection, [click here to visit link](#)

An automated classification solution can also eliminate the need to use patch pages and thus eliminate another hidden cost in AP processing. Patch pages are a common document preparation technique that involves an operator physically inserting a patch page wherever document separation is needed. Patch pages can trigger numerous actions such as indicating new batches, document sets, or attachments.

Unfortunately, this manual insertion of patch pages is a tedious task that becomes a major cost burden. When certain factors are taken into account—including the different variations of patch pages needed in the batch, the cost to produce them, removal of the patch pages out of the batch after scanning, and maintenance for when they get old, torn edges, creased, or need to print new ones—the costs quickly add up. A classification solution easily eliminates this step because it can identify where a separation is needed, and then route the document sets accordingly.

**Document images and document sets can be classified or identified for routing using a combination of methodologies:**

- **Document Attributes:** Example: Classify by document size, such as checks. Their size distinguishes them from larger documents.
- **Image Classification:** Match the “fingerprint” or topology of the document to a library of pre-defined images.
- **Text Classification:** Perform OCR and match keywords to a pre-defined list
- **Conceptual Classification:** A new technology ideal for unstructured or free-form documents which uses special recognition engines to “read” the entire document and interpret textual relationships and concepts, just as a person would.
- **Manual Exception:** Optionally route images to a verifier for classification without interrupting the workflow.
3. Underestimating the Powerful Punch of OCR and Data Capture

Manual data entry is prone to a wide range of errors with accuracy literally in the hands of the individual operators themselves. This can create costly issues, including delayed approvals, the loss of early payment discounts, and in-depth searches to find and correct an error.

The concept of lifting data from a physical document and turning it into useable computer data is commonly referred to as data capture or forms processing. It is based on a combination of technologies, including optical character recognition, or OCR for short.

OCR (Optical Character Recognition)

The electronic translation of text contained on an electronic document image into machine-editable text. This electronic text or “automated data capture” eliminates the need to hand-key data from paper documents into an ECM, ERP, or other back-end system.

1. OCR: Optical Character Recognition for machine print
2. ICR: Intelligent Character Recognition for hand print
3. OMR: Optical Mark Recognition for check/mark sense boxes
4. BCR: Bar Code Recognition for bar codes
5. MICR: Magnetic Ink Character Recognition for check characters

By combining the use of various recognition engines, useable data can be captured in a fraction of the time of manual data entry. This “captured” data is validated using a series of business rules and database lookups to increase data accuracy. The accurate, validated data is then seamlessly transferred to a user’s back-end system for processing, such as an accounting, ERP, or document management system.

In the early years of data capture, templates—roadmaps with “structured zones” for locating static data on a document—were the only way to automatically capture data from document images. Fortunately, that has not been the case for many years now. Semi-structured documents such as invoices, where each vendor has its own document layout, can now be easily processed with full data extraction—including line item details. For example, “total amount due” may be located at the top of the page for vendor ABC, while vendor XYZ places the total amount due at the bottom of the page.
is done without relying on manual “software training” which typically requires an operator to identify each new document when it is encountered.

Once the data fields have been located and captured, any data inaccuracies or mismatches can be corrected—for example between an original purchase order and the invoice. To achieve this, the captured invoice image, the captured invoice data, and any differences—such as quantity or price—from the original PO are automatically displayed and compared. Any discrepancies are highlighted—eliminating the need to manually match details. And with user-friendly design elements, the discrepancies can be corrected with easy drag-and-drop functionality, eliminating the possibility for a keystroke error.

A survey of more than 400 AP departments by The Institute of Management & Administration (IOMA) found that companies who utilized OCR for automated invoice data capture were processing 25-60 percent more invoices with the same level of AP staffing as those who were relying on manual data entry.

Bottom line, these advancements mean that manual data entry can be replaced with automated data capture, resulting in quicker invoice turnaround, reduced labor and overhead costs, and greater efficiency in the overall process. OCR technology also allows workers to focus on important business tasks, rather than keying manual data or verifying invoice and PO data. And, by combining multiple recognition engines, customized business rules, and database lookups, data accuracy levels can reach up to 99.9%.

**FACT:** Use of OCR technology has been proven to easily boost efficiency by 25-60%. A survey of more than 400 AP departments by The Institute of Management & Administration (IOMA) found that companies who utilized OCR for automated invoice data capture were processing 25-60 percent more invoices with the same level of AP staffing as those who were relying on manual data entry.
4. Inefficient Manual Keying of Line Item Details

Though business practices vary, some companies only capture basic or summary information such as the invoice number and total amount due, because of the cost and error rate of manual data entry being too high. Or their system may not be able to efficiently capture more than this basic information. Others might attempt to manually obtain line item details (item, unit price, quantity, extended price, and more) from invoices by having a team of data entry operators manually keying the details into their accounting or ERP application.

Technology provides a better alternative to manual keying by retrieving both summary and line-item detail data more quickly and with greater accuracy. Line items are quickly balanced and subtotaled, resulting in accurate data delivered into accounting or ERP systems. In the event that an invoice amount is out of balance, the invoice will be flagged for review so the correction can be made with the vendor.

**FACT:** By automating data capture in their accounts payable department, Northeast Utilities now processes one day’s worth of invoices in hours instead of days. They are saving $240,000 annually in labor costs and have reduced backlog by 90%—from 22 to just three days.

Source: www.anydocsoftware.com/casestudies

An advanced solution can also automatically assign general ledger codes to your invoice line-item charges, either via a default vendor code, or by matching codes from corresponding purchase order data in your financial system. And, the software can check subtotals and columnar math, to ensure the most accurate data is sent into accounting and back-end systems, with any errors flagged for review.

Automating data capture, including line item details, can significantly reduce costs and improve productivity—without adding staff.
5. Decentralized Processing and Duplication of Efforts

Often as companies grow and evolve, especially in response to rapid growth or expansion, limited resources can be shifted from back-office projects to other activities more visible to the public. Over time, this can create a situation where the status quo becomes the standard. Process improvements, when they become available, are overlooked, eventually widening the gap between the most efficiently performing AP departments and the least.

According to the Hackett Group, a global operations improvement consulting firm, shared services and automation have driven a 60% reduction in costs for world-class finance organizations over the past 17 years2. A shared services model can come in many flavors, from a parent company processing payments for acquired subsidiaries or business lines, or a model where a national company has regional offices located throughout the country processing payments. It could also take the form of a large financial processing umbrella covering invoicing, remittances, checks, and other department’s documents.

In another study conducted by the Aberdeen Group, an independent research and consulting firm, 26% of respondents reported adhering to a shared services model, with another 40% falling under a centralized processing model. Another 21% perform reconciliation at a de-centralized location but utilize a centralized location for processing payments3.

When centralized processing is combined with distributed capture, documents can be scanned at remote office locations or branches and transmitted via the Internet to a central location such as a company’s headquarters—reducing paper, postage costs, and delays. Distributed capture can shave significant time from processing cycles by getting clear, scanned invoice images uploaded for processing, allowing accurate, verified invoice data to be stored in accounting or ERP systems before the invoice would have even arrived by mail. Access to this accurate, verified invoice data sooner in the cycle also gives managers a clearer picture of current cash flow, allowing them to make better business decisions.

The more centralized shared services models rely on automation to efficiently process payments as well as other benefits. A shared services model provides the opportunity for tighter control, fraud reduction, and an increase in a company’s ability to adhere to compliance regulations such as Sarbanes-Oxley, PCI, and HIPAA.

CIOs and CFOs are continually looking for ways to lower their costs to process documents, and this should be a strong contender for consideration. A data extraction technology integrated with a shared services model yields lower overall processing costs for the company as a whole, as staff are able to process more invoices, remittances, and checks in less time.

Fact: 95% of organizations surveyed centralize processing or use decentralized processing on a common system.

Source: Guide to AP Automation Including Market Trends & Analysis 2010, Institute of Management and Administration (IOMA)

2The Hackett Group, Global Business Services: More Than a Name Change, 2009
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6. The Long and Winding Paper Trail

Eliminating document preparation, integrating data capture, and centralizing processing can only go so far in overcoming AP pitfalls. To get the most benefits, the highest ROI, and the most efficient process, business process management (BPM), including workflow and approvals, needs to be added to the mix.

**Fact:** “Business process management (BPM) is a management approach focused on aligning all aspects of an organization with the wants and needs of clients. It is a holistic management approach that promotes business effectiveness and efficiency while striving for innovation, flexibility, and integration with technology.”

*Source: Handbook on Business Process Management*

Rather than planning for rising overhead in annual operating budgets, many leading companies are implementing a “birth-to-death” solution spanning the life of an invoice. This focus on BPM includes considering how incoming mail is processed, the ability to eliminate manual document prep, as well as incorporating other elements of a “complete” solution—document imaging, document classification, data capture, workflow and approvals, archiving, and document retrieval and retention to minimize the paper trail.

Using simple click-and-point selection menus, staff members can set approvals based on options such as total invoice dollar amount or specific vendor, according to the existing business practices. Real-time audit trails of invoice status, including complete user logs, and full histories of approvals with all associated emails, are available with a touch of a button.

Instead of manually routing paper invoices to be approved, emails can be automatically triggered to the appropriate authorized approver. If no action is taken, reminders can be generated automatically and a supervisor can be alerted. This slashes the approval process from weeks or days to just minutes, which drastically reduces the costs of invoice processing.

With a BPM solution in place to improve the entire life cycle of invoice processing, manual steps are removed at the beginning, middle, and end—eliminating errors associated with handling paper and delays in decisions and approvals. With documents scanned right out of the envelope, document classification and routing begins the automation process. After data capture and validation, accurate data is sent into back-end ERP systems. And, invoice exceptions can be automatically routed for approval and other management decisions, further increasing efficiency of the overall process by reducing the paper trail.
7. Lack of Management Controls and Visibility

Not having the right information available to make quick decisions that affect cash flow and the bottom line is another common pitfall in many AP departments. With that in mind, having greater control and visibility into invoice processing—including the status of incoming invoices, where there may be a processing “hiccup” and work is not being processed—can increase efficiency at each step and improve overall productivity from the top down.

By deploying a solution that incorporates an approval module with an overview screen feature and detailed reports and dashboards, an AP manager can view a list of incoming invoices and see which have been approved, paid, deleted, or more. The real-time aspect also gives a manager the most up-to-date data for tweaking and optimizing processes for peak performance and efficiency. This can come into play when invoice volume is at its highest, for example, and an AP processor has left sick, leaving work behind in the queue which causes an imbalance in the workload. Because this allows critical status information to be available “at-a-glance,” indicating where resources should be allocated, processing speed and productivity are increased. And integrated email and approval procedure history is easily accessible and available at the invoice, vendor, employee, department level, and more.

Additionally, a greater visibility of invoices en route allows your AP team to prioritize invoices for approval. For example, a $10,000 invoice can trigger an email for approval ahead of a $100 invoice. This allows management to maximize early payment discounts and have tight control over cash flow. The overall cash flow transparency is greatly improved with an automated solution utilizing BPM.

**CASE STUDY: Commercial Real Estate Development Fast-Tracks Invoice Processing**

With an automated invoice processing solution comprised of a distributed document capture and data capture and validation component, this national real estate developer was able to take advantage of early payment discounts, saving more than 35% annually for a single vendor and an estimated $100,000 in annual postage costs. 

*Source: www.anydocsoftware.com/casestudies*
Conclusion

By avoiding these 7 common pitfalls, your AP team can evade the perpetual sticky mess encountered by creatures at the La Brea Tar Pits. With today’s advancements in technology, automation, and management processes, a more efficient invoice processing solution is as simple as understanding your current business processes and learning the areas where improvement is available. Along with the ability to automate document sorting, classification, data entry, approvals, and more, companies can slash their invoice costs by up to 50 percent or more—and at the same time boost productivity without adding staff. In most cases, ROI can be achieved in one year or less.

The right vendor can work with your existing databases, ERP, and back-end systems, and give your team a demonstration using your existing documents and processes. From reducing document-prep, to data capture, workflow, and approvals, and improving management visibility, learning more is the first step toward achieving your optimal AP efficiency.

About AnyDoc Software, Inc.

AnyDoc Software has been developing award-winning document, data capture, and classification solutions since 1989. Thousands of companies worldwide rely on AnyDoc solutions to eliminate millions of hours of manual data entry while improving their productivity and data accuracy. Any paper form or document including invoices, remittances, and checks can be automatically processed with full data capture without the need for manual keying. Clients include: Fastenal Company, Sony Pictures Entertainment, BlueCross BlueShield, the U.S. Census, LeasePlan, Coop, and more. For additional information, please visit us online.

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