

What Kind of Invoice Volume Do You Need to Justify Going Digital?

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In previous articles, I've outlined the benefits and challenges with going digital and moving your paper to the network. When you transform your paper invoices into digital format, you gain easier and faster access to data with lower processing costs. In this column, I go a step further and examine the dynamics around data extraction, with its ability to reduce or eliminate manual data entry and support key accounting processes, like prioritizing payment and check processing schedules.

What is data extraction, how is it done and who is using it?

Simply put, (Articlesbase.com August, 2008) "*Data extraction* can be defined as the process of retrieving data from an unstructured source in order to further process it or store it. Data Extraction is extremely useful for large organizations who deal with huge amounts of data on a daily basis..." Data integration occurs after paper is scanned, as the indexed files are matched against the Microsoft Dynamics ERP transaction. Data can be stored in a static or regularly updated database or document repository.

Data extraction is done through optical character recognition (OCR). When OCR is applied to the Accounts Payable department, it becomes an effective tool for eliminating manual data entry because as invoices are scanned, the OCR reads, classifies and distills the invoice data. Many studies have been conducted around invoice processing with the goal to define the associated costs. Depending upon process you choose, the standard cost to process a single invoice can range from \$8 to \$80.

Since so much of this cost is labor, i.e. the time spent on manual processes such as entering data, data extraction methods can significantly improve internal processes and data accuracy, while minimizing labor costs.

The practice of data extraction applies to organizations with high-volume invoice processing when there are at least a thousand invoices per week. This is due to the required upfront investments in time and money to implement a successful system. But if your organization has the volume, this effort could be worthwhile.

The benefits of OCR and Data Extraction in Accounts Payable

- Significantly decreases the cost to process invoices
- Prevents duplicate payments
- Eliminates manual data entry and processing
- Reduces invoice processing costs
- Increases payables transactions volume in less time
- Provides process and transaction transparency
- Eliminates manual data entry errors
- Eliminates late payment penalties
- Provides ability to achieve prompt payment discounts
- Provides mechanism for reporting data
- Unlocks the potential for corporate data

What criteria drive the decision to implement data extraction?

Even the biggest and best companies struggle to manage varied types of information, especially the challenges related to a mixed physical and digital environment like Accounts Payable. Paper is everywhere and is especially rampant in the accounting department, where it can appear in many forms, such as an invoice, purchase order or delivery confirmation.

When paper is scanned and information is available digitally, you gain access to automating your transaction processes. Which in turn provides new opportunities for prioritizing payment and check processing schedules, and ultimately saves your organization money. How do you know if this automation effort is right for your department? Here are some areas to consider:

1. High paper invoice volume (1K per day or week)
2. Increasing labor costs in AP
3. Ongoing data errors driving exception processing
4. Delays in customer responses
5. Inability for transparency into transactions/processes
6. Complicated reporting processes

Summary

If you are processing a thousand invoices a day, or even a week, you should consider moving your invoice processing to a centralized digital operation. Data extraction can improve your entire invoice processing operation and provide real savings in both time and money. And isn't that what technology is supposed to offer?