Optical Character Recognition (OCR) technology is a hardware/software tool that takes a paper document, usually an invoice, scans and "reads" it and turns it into metadata that can be used to populate fields in a database. From there the invoice can be brought into an electronic workflow for processing. Sounds great, right?

Companies spend millions of dollars on off-the-shelf OCR tools every year in the hope of managing piles of paper invoices better. But mid-market companies that are using OCR as an electronic invoice processing strategy are discovering that it's not really strategic. It's only a band-aid on a much more painful problem.

To be strategic, you need to think beyond just processing paper invoices better. You need to think about a holistic strategy for processing everything associated with the invoice better.

"THINK BEYOND JUST PROCESSING PAPER INVOICES BETTER. THINK ABOUT A HOLISTIC STRATEGY FOR PROCESSING EVERYTHING ASSOCIATED WITH THE INVOICE BETTER."

Only slightly less manual
Manual invoice processing might be the most obvious pain point to address, but the problem with OCR is you're just making the work slightly less manual but you're not actually reducing the workload. Here's why.

If you see a demo of OCR technology, it will be pre-loaded with invoices that are pre-configured to work with the system. That works
because OCR does fairly well at reading familiar documents.

In reality, OCR only works well for the roughly thirty percent of your supply base you do business with all the time. For the long tail of your transactions, the one-offs and suppliers you do business with infrequently, it’s not very accurate. It can be made to be more accurate, but it’s more labor intensive to get invoices set up and suppliers enabled at an acceptable level of accuracy than it is to just process the invoice manually.

The seventy/thirty fail
In the end, OCR typically costs about seventy percent of a fully automated solution, but only provides about thirty percent of the benefit. Going from paper to OCR for electronic invoice processing is like going from riding a horse to riding in a horse-and-buggy. You’re more comfortable in the buggy so there’s some marginal value, but you’re still only going at horse speed.

A car would obviously be a much better solution. The car in this analogy is a fully automated system combining an e-procurement front end with a supplier network.

Getting a P.O. into an e-procurement system offloads most of the work to the person making the request, and with a high level of accuracy because AP can reuse the metadata created by the person that fills out the P.O. The supplier network provides a myriad of ways of allowing suppliers to send electronic invoices and get their information into the system.

This lets you automate two- and three-way matching to create a truly paperless AP process. The invoice comes in, and based on the approval rules you have set, if the invoice and the P.O. metadata match, it automatically gets approved for payment. No one has to touch or validate anything. You have a high degree of confidence that what the buyer in your organization wanted and was approved for was fulfilled by the supplier at the agreed upon price. You can pay that invoice without having to look at it.

Process everything better
This is what I mean by processing everything associated with the invoice better. It’s a more distributed workload, and instead of everything bottlenecking in AP the work of getting accurate information into the system is distributed across the entities that actually know the most about their part of the transaction. That’s strategic and scalable.

Technology innovation now allows buyers and suppliers to share the work of doing business together. Many suppliers are now equipped to connect electronically and help you streamline processing in the ways I’ve described, but OCR tools won’t help with any of that. They’re really just for paper, maybe some email, so it’s just a partial solution.

A fully automated e-procurement system and supplier network also has a supplier self-service component that is really valuable to AP. With a supplier network, your suppliers have a limited view into your process, so they can see where payment sits without having to call someone on the phone.

The irony is that AP or finance is usually the group that decides to buy OCR. To get to a more strategic and scalable solution, there are other factors and stakeholders that need to be considered, primarily procurement and Financial Planning and Analysis (FP&A). In most organizations, procurement and finance are siloed, so AP gets OCR to put a bandaid where it feels the pain, but it’s not a scalable solution.

As companies grow, they have two choices to deal with transactional growth: throw headcount at the problem, or invest in technology that will enable the back office to grow capacity and still operate very lean. If you are considering OCR technology, think beyond just solving this immediate need. Connect with other parts of your organization and see the bigger picture. Think beyond ways to process paper better, and think about the best ways to process, period. Get yourself a car, not a horse and buggy.