



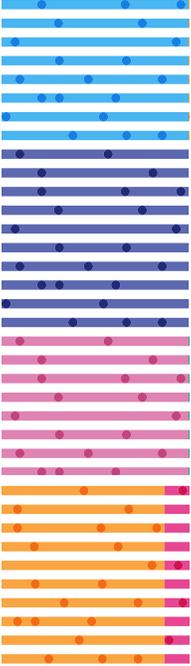
5 Things You're Missing if Your AP Automation Solution Doesn't Have Predictive Analytics

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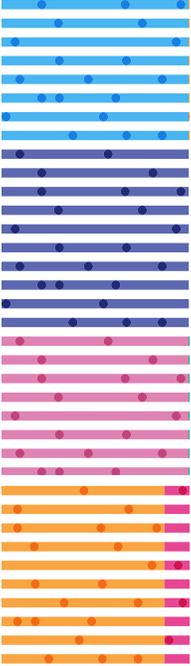
What constitutes a “high-performing” accounts payable department? Benchmarks are often based on specific metrics such as how much it costs to pay each invoice or how long it takes to move an invoice from receipt to payment. These metrics are useful, but they tell only part of the story. Without true analytics, AP invoice processing isn't providing its full value to the business.

When data insights are applied to AP automation, attention can be shifted from tactical benefits to more strategic ones. Access to data intelligence can help organizations optimize their working capital, improve the ability to meet contractual obligations, and fuel process improvements.

Benefits of AP Automation

AP invoice automation uses a variety of technologies to reduce the number of manual steps needed to complete the purchase-to-pay cycle. These include proven technologies such as document imaging, data capture, workflow, and integration with ERP and other financial systems to achieve the following:

- **Lower operating expenses** — Organizations that use AP automation reduce the staffing needed to process invoices by eliminating data entry and manual routing. More importantly, they better use the staff they do have to concentrate on more important tasks such as resolving exceptions and data analysis. Electronic document storage also eliminates time spent retrieving physical documents as well as related costs for storage space and supplies.
- **Improved payment performance** — By eliminating mundane tasks, automation speeds the processing of invoices. Prior to automating, many organizations experience backlogs in processing, especially during peak periods. But faster processing reduces the risk of late payments and helps many organizations collect early pay discounts that they couldn't reliably take advantage of previously.
- **Improved visibility** — Basic audits are significantly less disruptive in an electronic environment, but in an era of greater accountability and litigation, automation has the added advantage of delivering process transparency. Using workflow logs and other tools, organizations can document what actions were taken, when and by whom to demonstrate that documents moved through the process in accordance with stated policies and standards.
- **Opportunities for growth** — When automation is used to eliminate low-value tasks, AP departments realize not only greater productivity, but a greater opportunity to focus on strategic initiatives. These initiatives can range from additional financial analysis to streamlining the onboarding of financial processes for mergers or acquisitions. This is clearly an area where there is a need for additional analytic capability in automation.



These benefits have remained a constant for AP automation since its inception. However, changes in the workforce have made it difficult to reap them. Employees change jobs more often, are more likely to be contractors, and are accustomed to readily available and easy-to-use apps. More people work remotely or on distributed teams with more flexible working hours. And nearly everyone wants to be able to conduct business on a mobile device. To adapt to these demographic trends, vendors have strived to make AP automation easier to use by investing in the following:

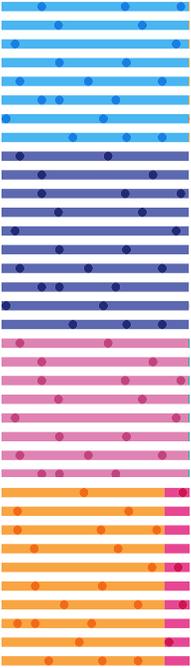
- **Workflow** — Automation technology has improved tremendously, allowing hands-off processing of more invoices than ever even for those with complex rules. As this technology has matured, the real innovations have been in usability. Workflow used to be the domain of only the most technical employees. Now drag-and-drop tools, out-of-the-box rules and actions, and graphical design interfaces put the power in the hands of business users, giving them the ability to respond quickly to changing circumstances.
- **Cloud** — As workforces become more fluid and fewer employees are tied to a specific location, the accessibility of cloud solutions has helped organizations cope. Though many AP departments have become centralized, their customers have become more dispersed, especially in a shared services environment. The ability to share documents and processes using browser-based technology makes it easier for people to complete their tasks, decreasing the payment time for accounts payable operations.
- **Mobile** — The same factors that drive cloud adoption have helped increase the use of mobile technology as well. In an era of BYOD, or “bring your own device,” AP departments can provide access to device-agnostic cloud software that allows people to be productive when they are away from their desks. This is particularly important in situations of high risk/high response because the individuals with the authority to sign off on high-value invoices and special terms are often the ones least likely to be sitting in the office or required to use a specific device. If they can complete tasks such as approvals easily at the airport or between meetings on a phone or tablet, they can maintain productivity.

So where does the technology go from here? Have we reached the pinnacle of productivity and cost savings? Maybe the question isn't whether we can continue to improve the existing metrics but whether it's time to change the metrics themselves. Predictive analytics add a new dimension to AP automation by measuring not just what has happened but also what is likely to happen.

The Difference Between Reporting and Analytics

Analytics has become a loaded term because it has been used to mean so many different things. Sometimes it refers to what is more appropriately called reporting because it looks at static events without any association to a current business problem. For instance, reporting can tell how many invoices each employee processed, show how many invoices are in a queue, or show the average amount of time invoices spent in each queue. But a visual representation of tabular data isn't analytics.

True analytics provide actionable insights that help drive business decisions. Instead of providing tactical data about a department — such as whether all of the processors met their productivity goals — analytics, especially predictive analytics, give decision-makers the information they need to make real-time changes to adjust for desired outcomes. They use data collected during the business process to draw the big picture of where the business is going.



Most automation solutions offer some form of reporting, either inherently or through third-party apps. Analytics, however, have generally required additional software and skills. For instance, some organizations use pivot tables, which require specialized skills and access to multiple data sources. If the right data is present, a pivot table offers some flexibility in how to compare the data. But changes generally can't be made on the fly, and data exports are often outdated, such as when the model depends on an end-of-month download.

Third-party analytics tools offer similar challenges and require additional cost and technical resources to support. Many organizations make use of the analytics capabilities of their ERP software, but this alternative can't track data that comes from the automation solution, which generally manages processes prior to the data entering the ERP, and may require additional seat licenses and training to make the data available to executives.

To realize the full value of AP analytics, the capability must be tightly linked to, or inherent in, the automation solution itself. This allows for instantaneous access to data in the system and a historical data record that can be used for calculating trends and predicting performance.

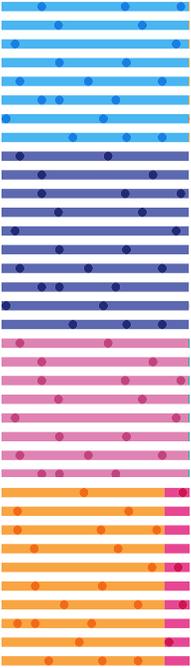
What You're Missing Without Predictive Analytics

1. Adding value to the C-Suite with granular cash-flow intelligence. AP leaders are under constant pressure to improve performance and hold the line on costs by optimizing processes, but they also need to deliver data the C-suite needs to run the business intelligently. Many reports indicate that understanding cash flow and working capital is a top priority for CFOs. Predictive analytics give executives a real-time view of expected cash outlays, not just outstanding liabilities, so they have better data to make decisions about liquidity management and perform cash flow analysis.

AP automation has become an important tool for providing visibility into liabilities and exposure, but predictive analytics allow AP departments to deliver more precise details about outbound cash flow based on historical precedents. For instance, most AP products allow you to see things like the number of total outstanding invoices in the system. They might even tell you when those are due. But what many can't tell you is when they're likely to get paid.

In this example, predictive analytics analyzes where your invoices are in the process and tells you when you can expect them to actually post for payment based on past performance. (See Figure 1.) This information is based on knowing:

- The typical flow of various kinds of invoices, such as non-PO invoices, PO invoices within spending authority, and PO invoices requiring executive approval.
- About how long each of these steps usually takes in the real world.
- Where each invoice stands along each of these steps, and an estimate of how much more time it has from there.



As a result, predictive analytics provide a granular view of outbound cash flow, giving CFOs and financial analysts focused on liquidity management a precise understanding. This allows them to budget for outbound cash flow with greater confidence.

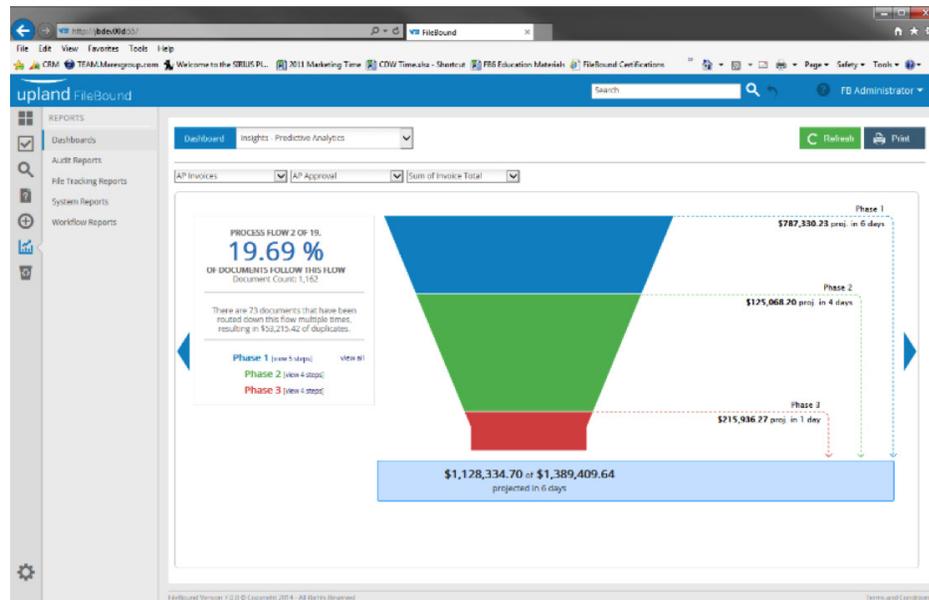


Figure 1: This view of the payables funnel not only tallies outstanding liabilities but estimates when they are likely to post to payment based on historical AP performance.

2. Elevating internal and external customer service. Analytics put the data your internal customers need at their fingertips. For instance, if the purchasing team wants to track a comparison of the top five vendors or the shared services organization wants to see comparisons between business units, that data can be presented to them on demand. Users can change the parameters dynamically to learn more about the current business environment.

External customers can also benefit from more precise answers regarding when to expect invoice payment. Historical data can be used to estimate when the payment will be posted based on how long it has taken invoices with similar attributes to post. When there is a vendor inquiry about a late payment, AP can quickly identify whether the process took an unusually long time and, if so, where the process fell outside of the norm. For instance, in Figure 2, the green line demonstrates the historical average time an invoice of this type spends at each step, and the blue line represents an exception. In this case, the AP manager would know this is an anomaly that should be addressed.

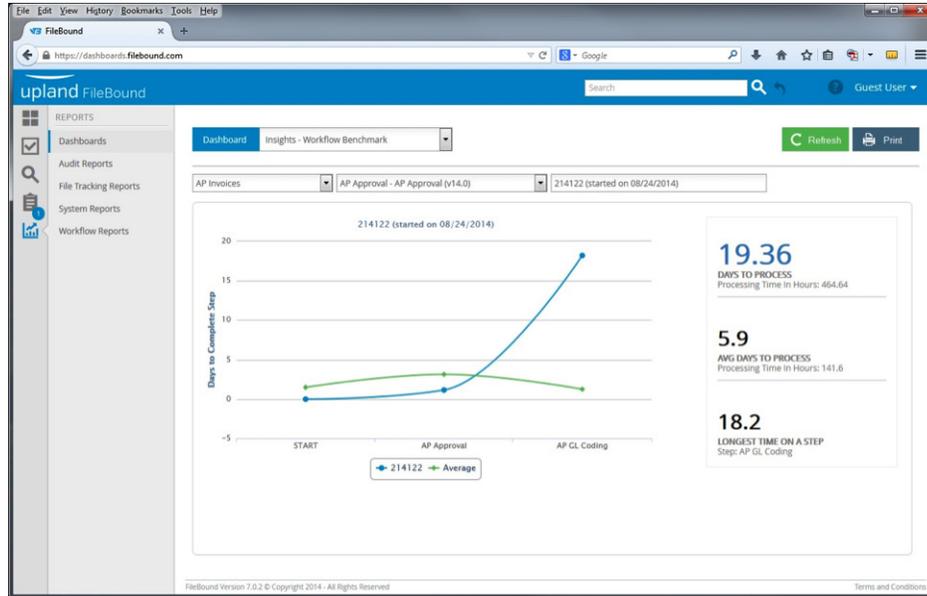
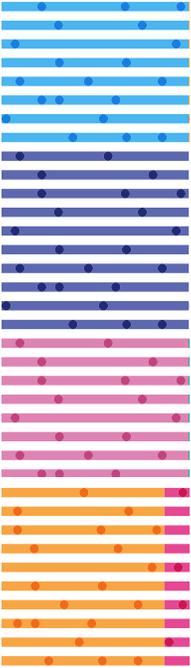


Figure 2: This benchmark analysis compares the flow of a “problem” invoice (the blue line) with the historical averages so that AP managers can quickly distinguish situations outside of normal operations and demonstrate appropriate expectations to internal customers.

3. Establishing better benchmarking, SLAs and process improvement strategies. The information presented in benchmarking dashboards (as in Figure 2) can go beyond customer service to help develop vendor purchasing strategy. Purchasing teams rely on AP to meet payment terms and contractual obligations, but with analytics, AP can also provide the data needed for purchasing to negotiate better terms. Knowing, for instance, the historical payment benchmarks and the vendor history and comparisons can give the purchasing team important data points for negotiating contracts with confidence that the AP team can meet the terms.

Many organizations require internal service level agreements (SLAs) from departments. Analytics data can be useful in creating and verifying realistic SLAs as well as analyzing areas for improvement. With the growing adoption of shared services, the need for clear benchmarks and usage metrics becomes even more crucial.

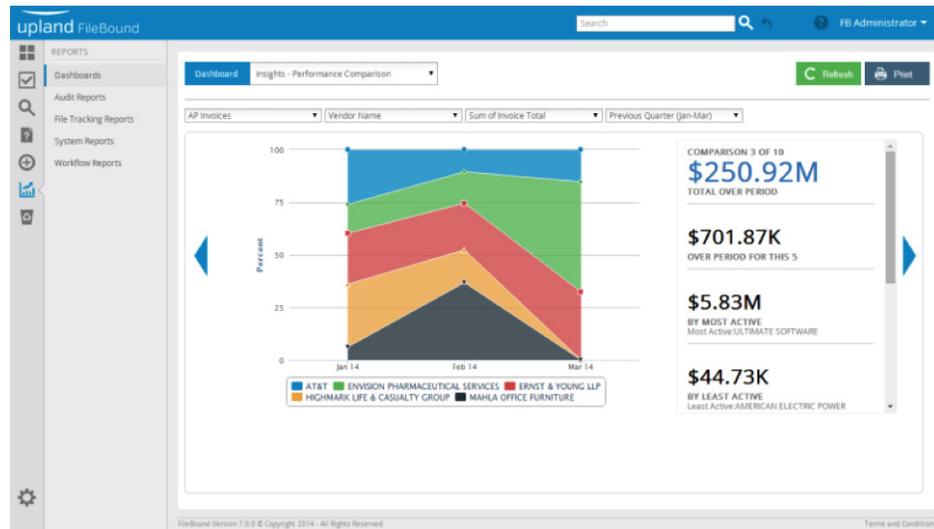
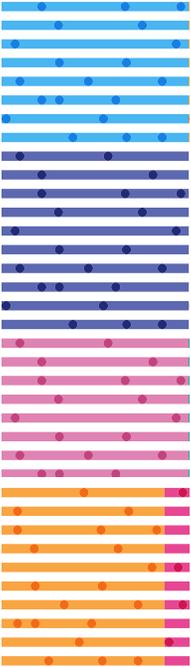
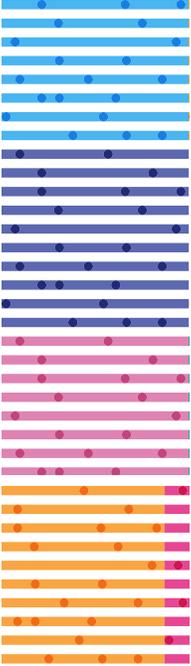


Figure 3: The analytical dashboard above shows a comparison of the five top vendors, automatically calculating the total spend and activity levels.

4. **Elevating the role of AP.** Demonstrating the strategic contribution of AP takes the focus off the transactional and repetitive aspects of the department and shines a light on how AP can contribute to the overall business. The tactical benefits of the automation solution free you from the mundane tasks and deliver greater focus on delivering value, and it's important that they be replaced with responsibilities that are valued by the business. This allows automation to enable AP leaders and staff to achieve their career goals.

5. **Getting approval for your AP project.** The benefits of AP automation are well documented. Yet AP automation isn't universal. In a 2013 survey performed by an AP research firm, almost two-thirds of AP respondents reported that their companies had not made significant investments in automation. Lack of budget and lack of executive sponsorship were two of the top three reasons cited for lack of automation. This suggests that it's often not seen as a strategic priority by those who make the primary budgeting decisions. Analytics provide an opportunity to demonstrate the true value of the solution to the executive team in a context that reflects their primary concerns.



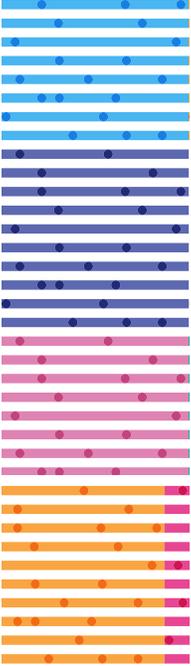
Choosing a Predictive Analytics Solution

Analytics are becoming a common feature in enterprise solutions, and AP automation software is no exception. As organizations look to acquire or upgrade their AP applications, analytics should be added to the criteria. To deliver the necessary capabilities in a way that is accessible to users and delivers the agility needed by the business, an analytics capability should have:

- **Predictive capability** — A robust analytics tool will be able to evaluate past performance to predict future outcomes. Workflow history isn't sufficient because it merely reports the past. True analytics shows how this data affects the business tomorrow, not yesterday.
- **User-driven design** — It's no longer practical to call a database administrator to change the view of the data to explore new insights. Predictive analytics should allow business users to easily select the data they want and determine how they want to view it without IT requirements.
- **Direct connection to data** — Third-party tools and integrations add layer of complexity and risk to obtaining accurate analytics about AP automation. Software applications with out-of-the-box analytics capability ensure that the data source is configured properly.
- **Fast implementation** — Out-of-the box analytics are available as soon as the automation solution is implemented, without additional steps. Eliminating time spent implementing and configuring analytics provides faster access to data insights that can guide process optimization and uncover inefficiencies. It also decreases the risk that analytics will be a "phase two" that never gets prioritized.
- **Customized dashboard views** — Users should find it as easy as possible to view analytics data, even if they are not commonly users of the automation solution. An executive, for instance, should be able to see the desired dashboards as a default upon signing in or from a link. AP managers, however, might want to include analytics in a dashboard with other monitoring and reporting they need to review. Or they might want to create separate tabbed dashboards for different responsibilities such as one for employee performance monitoring, one for workflow status and usage, and one for analytics. A user-focused software package will accommodate these and other needs easily to adapt to the way the user wants to work.

Conclusion

On the surface, AP automation technology doesn't seem to have changed much. But vendors are responding to changes in the workforce and technological advances to provide software that doesn't just store data, but also provides real-time data intelligence and insight. AP leaders can leverage these capabilities to stay ahead of the curve and drive more meaningful benchmarks.



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