

Advanced AP Analytics: The Express Train to Higher Performance in Finance

Kevin Wilbur, Practice Manager
170 Systems

Overview

You've done it all – standardized on a single ERP instance, integrated workflow, and automated AP processing. Now, how do you further improve operations? Traditionally historically focused, today's AP-focused analytics tools leverage both your ERP data and workflow data to offer new levels of predictive and actionable intelligence. Attendees will gain a thorough understanding of the state of AP analytics and how they can harness these powerful tools to improve the bottom line.

Financial Process Automation Foundations

Surprisingly, many organizations have only recently automated their financial processes. With the number of years that ERPs have been implemented, industry analysts continue to be amazed that many companies are just now embracing these technologies. In many cases, Finance or AP operations haven't been viewed as a value-added department for technical investments. And yet, when the investments are made, organizations often fully recoup their investments in financial process automation in under a year's time.

When organizations do automate financial processes – usually with a standardized ERP implementation and some sort of OCR or e-Invoicing component – the solution typically paves the way for the implementation of a shared service center (SSC). And, the benefits of the automation project are numerous: reduced invoice-capture costs, faster cycle times, lower error rates, strengthened internal controls, reduced document storage and transportation costs and more. These are all the byproducts of a standardized solution.

But, many organizations find that, despite their dramatic progress in reducing costs and time and improving visibility, that they're still missing discounts and other opportunities, lacking the detailed operational perspective on operations, and looking for ways to provide better visibility to Finance management. Advanced analytics hold the key.

Analytics are the "golden spike" that enable organizations to bring together the value of the different investments they've made. They help organizations understand what's working and what's not, address bottlenecks and productivity issues, and maximize efficiency and effectiveness. They also help organizations enforce compliance by highlighting potential conflicts, manage cash more effectively, and meet SLAs with other business units. In short, the only way to achieve the highest levels of operational performance is having the right information.

Today's Analytics

However, many organizations have only the most basic data gathering and reporting capabilities in place, if any. The most prevalent (and rudimentary) reports are typically spreadsheet-based. They may reflect data from different repositories which was imported into the spreadsheet for data presentation purposes. And, many have only transaction data. Still other organizations have some tools in place, but find them too difficult or they require too much IT support to be useful. Still other organizations are drowning in data which, but lack the right information or conclusions.

Examples of data mistakes include: having too much data, having data that isn't actionable, data that doesn't address the problems or issues that need to be addressed, data that drives the wrong behavior, transactional data (rather than process data), and data that attempts to measure

something unclear or ill-defined. These behaviors provide false comfort, letting organizations think that they are gaining needed operational insights while, instead, they're not using their resources to maximum effectiveness.

Other barriers to proper analytics are that most AP analytics solutions focus only on the AP organization, not the other parts of the organization that also need visibility into AP processes, e.g., controllers, Treasury and Finance Management. Also, most AP reporting solutions are transactional (ERP transaction reports, for example, showing holds reports, aging, etc.) or process oriented (throughput, owner, etc.), and primarily tactically oriented so they only present a particular "point in time," and don't synthesize the various information which limits their value and ability to deliver strategically relevant information. In today's tools, there's an acute shortage of accessible, advanced analytics capabilities that enable Finance managers to monitor, sense and respond to daily events to optimize processes.

Advanced Analytics: The Visibility Opportunity

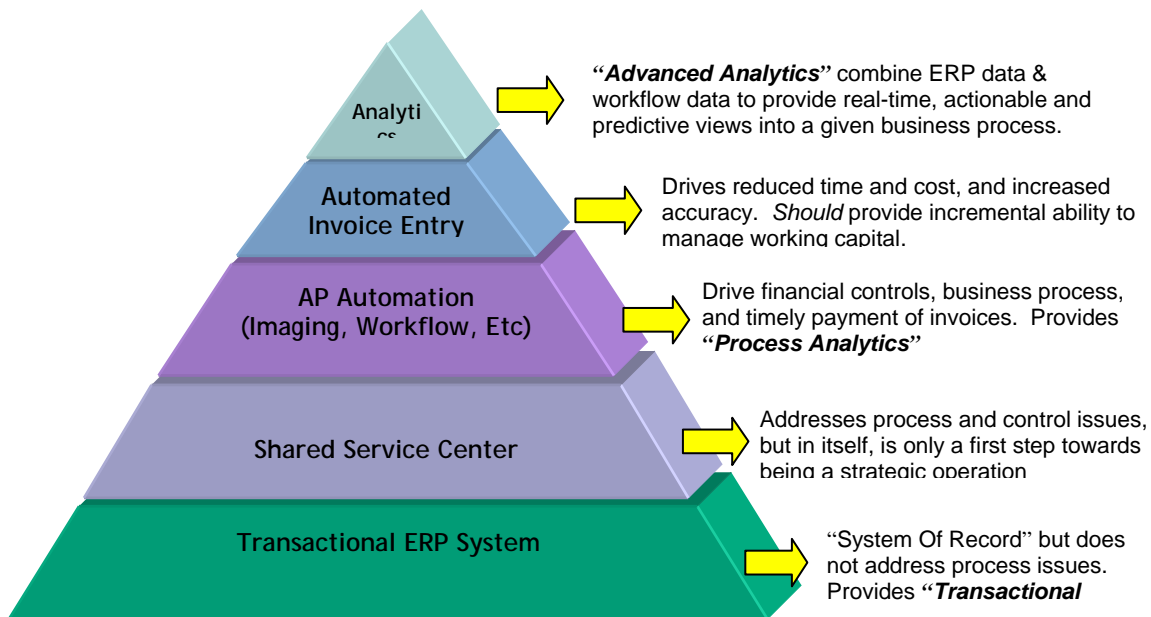
What has become clear as Finance organizations have leveraged automation to improve their processes, thereby extracting themselves from the morass of paperwork, is that the only way to reach a higher performance level is through better information. Recent research among Global 2000 companies revealed that Finance managers – whether in centralized, shared service or outsourced environments -- are looking for meaningful financial process intelligence that will help them continue the progress they've made. They want a great deal more than static reports. Their requirements include historical information and trends, operational information around SLAs and KPIs, discount management reports, etc. These Finance managers also want better insight into the daily events and activities in AP, combined with an ability to respond to or address situations that require intervention. What they are equally clear about is that involving IT to develop an internal solution or write reports in an existing BI tool is a major, often insurmountable, hurdle.

Accounts payable shared service centers (SSCs) have their own particular twist on analytics needs because their ability to serve key business units is critical to their success. They enter into contracts with the business units and the SLAs involved usually focus on the entire business process, while most SSCs control only a portion of a given process. Because today's data and reports provide only historical patterns, they don't give SSC managers the capabilities they need to accomplish their objectives. They need actionable and predictive analytics to reach the next level of performance and adhere to the SLAs.

Both Finance managers and SSC managers need advanced analytics that enable them to:

- Strategically manage and optimize the effectiveness of Finance resources
- Derive meaningful process perspective without requiring IT resources or custom-developed reports
- Expedite certain transactions (either for customer satisfaction or financial reasons)
- Be alerted to critical situations
- Extend the value of the financial process automation applications with real-time access to the most relevant details of the procure-to-pay process.

Advanced analytics provide the most comprehensive and accessible insight into core Finance processes, synthesizing both workflow and ERP data, and including daily/historical/trend/discount management perspective. Further, advanced analytics present the most relevant information via a simple, consistent interface that is clear and accessible for all users enabling Finance organizations to improve cash management and clearly quantify process metrics, which can serve as the basis for improving relationships with suppliers and business units. In short, advanced analytics unlock the value of all the other AP automation investments.



The Path to Advanced Analytics

Developing a strong appreciation of the benefits of advanced analytics is a critical first step on the path to implementing them. However, there are many steps in between. The first step is developing an understanding of what needs to be tracked and why for an organization because each organization has its own motivations and simply implementing an analytics initiative without understanding why is not going to serve any organization well. Is the primary objective to:

- Establish and/or improve performance metrics – cost, cycle time, error rates, productivity?
- Benchmark your organization?
- Achieve World-Class status for a department or SSC?
- Measure process efficiency and/or effectiveness?
- Establish the foundation for KPIs?
- Monitor and track performance based on SLA terms?
- Charge back to business units based on accurate data?
- Address an organizational perception?

As with many other undertakings, there's a natural "crawl-walk-run" progression for analytics. The "crawl" stage involves knowing exactly how many PO- and non-PO invoices are received, and knowing how quickly invoices are received into AP (how many days does it take?). Also, how many dates on POs are later than the invoice dates? And, how long does it take to process PO- and non-PO invoices?

The "walk" stage involves understanding how much it costs to process an invoice (and if there are multiple locations, the processing costs in each locale), whether there are any controls violations that should be tracked, and whether there is visibility into the invoice outside of AP.

The "run" stage includes understating whether all available discounts are being captured, whether SLAs are being met, whether organizations are able to prioritize higher value invoices to accelerate payment, and whether the organization is in a position to negotiate preferable terms with suppliers.

But what tools are available? In considering the landscape of available solutions, they can be broken into three logical groups:

- **Custom-built solutions** which typically are sold as a toolkit and deployed by a third-party consulting organization or internal IT resources.

- **Packaged analytics applications** which are sold and supported applications from an independent software vendor with expertise in the field
- **ERP vendor tools** which typically provide a general set of options to choose from.

The challenge for any organization is to fully understand the range of available choices, understand their own needs, and make a selection that successfully meets those needs. For any AP automation initiative to truly deliver on its potential, advanced analytics are an essential ingredient.