The Power of AI and Data Analytics in Accounts Payable

Turning Financial Data into Strategic Insights

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Preface

The changes in the macroeconomic landscape have prompted CFOs to focus on achieving revenue profitability, optimising operating cash flows, and, most importantly, **implementing more efficient processes.**

In the aftermath of the COVID-19 pandemic, activities such as dealing with appropriate and compliant suppliers, fostering improved vendor partnerships and business sustainability, and enhancing the overall resilience of the supply chain have evolved beyond being solely a matter for procurement and Accounts Payable (AP).

> The constantly shifting and evolving Indian compliance regulations are adding a strain to an already overwhelmed AP team and various organisational stakeholders.

CFOs and finance leaders are more concerned about AP than ever before!

Since AP operations have predominantly relied on manual and paper-based processes for an extended period, CFOs face significant challenges in gaining real-time insights into costs, provisioning, and compliance related to vendor transactions, particularly in rapidly expanding or geographically dispersed operating settings.

AI and data analytics enhance AP processes by automating tasks, improving accuracy, providing real-time insights, optimising vendor relationships, and boosting process efficiency and compliance. Read on to learn how this is made possible with AI and data analytics.

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Roadblocks in Accounts Payable today

A blend of traditional practices and evolving technological solutions marks India's current state of Accounts Payable (AP). While many businesses have begun to adopt digital processes, a significant portion of AP operations in India still rely on manual, paper-based methods or standalone solutions.

Challenges in the Indian AP departments include compliance with the Goods and Services Tax (GST), which has significantly changed tax regulations and invoice formats.

Navigating through these complexities can be daunting, particularly for multinational corporations and manufacturing businesses with operations in India. Additionally, delayed payments by businesses can strain relationships with suppliers and may lead to legal disputes.

The prevalence of paper invoices and manual data entry leaves room for errors and inefficiencies. This can delay invoice processing and payments, impacting cash flow management. Fraud risks, such as invoice manipulation and unauthorised payments, also persist.

Furthermore, the COVID-19 pandemic has necessitated remote working and digital transformation in AP processes, as traditional office-based workflows faced disruptions.

The challenges can be summarised as follows-

Broken vendor onboarding: Lack of a unified channel, manual processes for onboarding, document verification, etc.

Manual invoice receipt: Invoices received in different formats, both scanned and hard copies, amidst decentralised setups.

Lack of invoice validations: No option to validate invoices at source or to check the authenticity of the invoice or manual validation of invoice information.

Suboptimal invoice processing: Manual data capture from multiple formats and manual punching of invoices

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Inconsistent/missed vendor payments: Weak control of payments, inability to block GST payments based on non-compliance, and broken vendor communication.

No visibility on cash flows/working capital: It is pertinent to balance between the timely invoice payments while maintaining adequate cash reserves. Inefficient AP management may hamper cash flows, adversely affecting the working capital of the business.

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70%
AP teams' time spent on data punching and reconciling invoices

10-15 mins
Average time spent on logging a single invoice into the ERP

20-25%
Loss of AP teams' bandwidth in responding to vendor queries

30%
Enterprises aren't aware of the cost and cycle time to process an invoice

10%
Profitability impacted when ITC is not filed or due to delayed filings by vendors

20%
vendor payments are delayed, due to poor processes or working capital shortages

The above insights are based on a recent survey undertaken by our team. It highlights the downstream implications of using manual AP processes by Indian enterprises today, especially on a company's profitability and working capital management.

Despite these challenges, there is growing awareness of the benefits of automation, AI, and data analytics in AP across various industries in India.

A recent worldwide survey in 2022 by the Institute of Financial Operations & Leadership (IFOL) of its finance professional members found that the largest % of respondents, 54%, had "partially automated" AP departments, and relatively fewer, i.e. 9%, were fully automated.

This means only 9% of businesses globally have fully automated their AP function, which is even lower in India. This figure was 5% as per their 2019 survey.
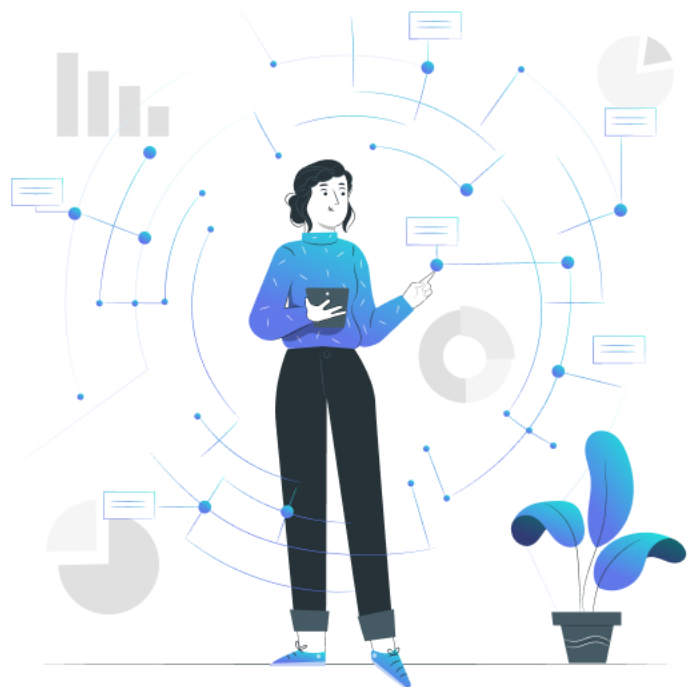
Businesses are increasingly investing in technology to streamline processes, reduce errors, and enhance compliance. As a result, the landscape is gradually shifting towards greater efficiency and digital maturity in AP operations.

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Harnessing the Power of AI and Data Analytics in Accounts Payable

The entry of Artificial Intelligence (AI) caused a revolutionary shift in the world of technology, reshaping functions by making them faster, smarter, easier, and more efficient. This transformative impact extended to the realm of finance, where AI has ushered in a wave of innovation, characterised by speed and precision in various aspects such as data processing, data matching, risk evaluation, and fraud detection.

However, the adoption of AI within the accounts payable process, particularly in Indian enterprises, remains relatively novel. Finance leaders today should look at embracing AI in their AP operations to grasp the untapped potential that it offers. AI facilitates remarkable process enhancements while also offering long-term cost savings. Much like AI, data analytics is also equally important to analyse historical AP data for improving decision-making capabilities in AP.

Here are the areas in accounts payable where AI and data analytics can be leveraged to make the process faster, more efficient and even more cost-effective, while giving business leaders strategic insights:

Vendor onboarding and compliance monitoring

Until a couple of years ago, vendor compliance did not have the same significance as it does today. Now, with input tax credit(ITC) claims under GST laws being directly linked to vendor compliance and return filing, recipient businesses stand to lose if they engage with vendors who are not compliant. This is where the capabilities of AI and machine learning come into play.

Through AI and machine learning, businesses can gain insights into the compliance history of their vendors, enabling them to make informed decisions about onboarding and conducting business with them. This strategic approach helps them steer clear of financial losses associated with blocked input tax credits and avoid the various hassles that accompany dealing with non-compliant vendors.

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Optical Character Recognition (OCR)

OCR is still a very new technology for Indian businesses when it comes to invoice capturing. AP teams spend nearly 70% of their time on data punching into their ERP system. OCR technology converts the image of a text into a machine-readable format, simply put as the digitisation of invoices. This type of data capture drastically reduces time and cost for enterprises.

AI-powered OCR also leverages machine learning technology for more accurate invoice capturing and ensures that the data is auto-populated into the required fields, without the risk of human error. Accordingly, it lays the foundation for quicker, accurate, and automated processing of invoices across the workflow.
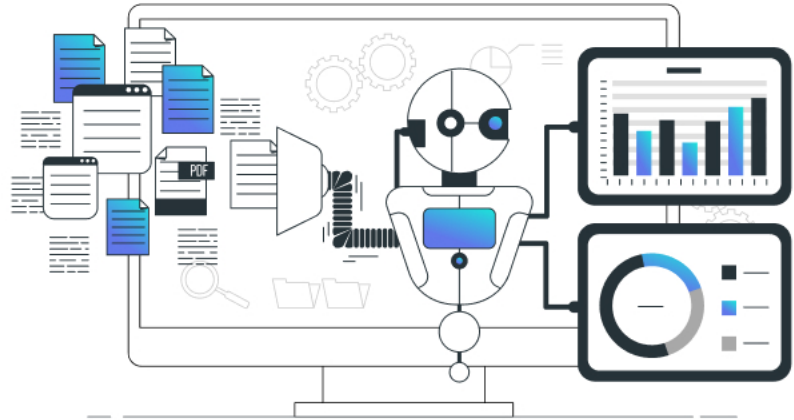
Data enrichment

AI takes data capture up a notch through data enrichment. Inconsistencies in OCR get covered through an AI-enrichment engine. Further, machine-learning capabilities provide features such as autofilling of GL codes, etc., for non-purchase order invoices based on previous user input and patterns, significantly reducing the need for human intervention.

Data reconciliations

Once the data from the vendor invoices are captured, an automated AI-based recon engine matches the invoice with the corresponding Purchase Order (PO) and Goods Receipt Note (GRN), to check for inconsistencies. Further, the AI-based tool also matches these vendor invoices with the input tax credit (ITC) details that are available on the GST portal. This step not only ensures that every vendor invoice is uploaded but also that accurate ITC is claimed.

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Approval workflows

AI-powered accounts payable (AP) automation also optimises the approval workflow, resulting in a swifter approval process and, consequently, a shorter invoice cycle. In a typical business scenario, approvals are required from various departments based on the type of invoice or the amount involved. Automation simplifies the entire process at the click of a button while maintaining a detailed audit trail. In addition to enhancing operational efficiency, this promotes accountability and transparency within the system.

Payment tracking

Making payments is not the challenging part of the AP process, it is making them on time. AI can align invoices with the contract terms, and send an alert whenever an invoice is nearing its payment deadline. This ensures timely payment every single time, while helping businesses stay clear of late payment fees and instead qualifying them for early-payment discounts wherever applicable. In the long run, this also contributes to better vendor relationships and more favourable contract terms.

Risk assessment and fraud detection

When a business deals with thousands of invoices, there is always a risk of fraud. Most ERP systems will not be able to tell a genuine invoice from a fake one, putting the enterprise at a risk of fraud and financial losses. An AI-backed AP process can easily detect patterns indicative of fraud and flag them, thus preventing financial losses.

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Data-driven insights and working capital visibility

AI can provide enterprises with data-driven insights into their processes, right from vendor performance to pricing analysis and cost control. It also helps examine massive amounts of data to find trends and patterns that can be then used to derive insights for improving business processes. For instance, vendor performance analytics assesses the performance of vendors based on various metrics such as on-time delivery, invoice accuracy, and quality of goods or services. This data can form the basis of vendor selection and negotiation strategies.

Further, AI and data analytics can analyse historical invoice payment data and predict future cash flow trends. This enables organisations to optimise their cash management and plan for upcoming expenses. Finance leaders can gain better working capital visibility and make better financial decisions.

From invoice processing to fraud detection and everything in between, AI and data analytics are revolutionising the accounts payable process, providing businesses with 10x process quality improvements and data-driven insights for that ultimate strategic advantage.

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Transforming Financial Data Into Strategic Insights

AI automates tedious and rule-based tasks within the AP process to accelerate processing times and minimise human errors. On the other hand, data analytics dives deep into the financial data generated during AP operations. It scrutinises trends, patterns, and anomalies that might remain hidden at the human level.

The synergy of AI and data analytics plays a pivotal role in optimising the AP process and enables businesses to unlock the full potential of their financial data. Finance leaders can then leverage this critical financial data and transform the same into strategic insights for enhancing their decision-making capabilities.

Here are examples explaining how AI and data analytics can be a transformative power in AP:

Early payment discounts

AI-driven automation identifies opportunities for early payment discounts, flagging invoices that qualify for such discounts. Data analytics analyses financial implications, such as examining cash flow forecasts and historical payment patterns, which can quantify the benefits of early payments versus standard payments.

Accordingly, businesses can accelerate payments strategically for invoices with substantial discounts, optimising cash flow and reducing costs.

Supplier performance analysis

AI ensures invoices are processed efficiently, but data analytics can spotlight supplier performance. It collects data on invoice accuracy, payment timeliness, and vendor communication history.

Businesses can then categorise suppliers based on their performance. Top-performing suppliers might get preferential payment terms or closer collaboration. On the contrary, underperforming suppliers can be asked to improve invoicing accuracy or timeliness.

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Fraud detection

AI can analyse transactional data in real-time to detect anomalies that might indicate fraud. Taking it further, data analytics can examine historical patterns and trends.

Businesses can identify unusual patterns by comparing current transactions against historical data. For instance, data analytics might reveal that a particular vendor's invoices fluctuate within a specific range. A sudden spike in invoice amounts could signal a potential issue that AI might have missed.

In these examples, AI and data analytics complement each other to transform raw financial data into actionable insights. AI streamlines the operational aspects of AP, ensuring efficiency and accuracy, while data analytics utilises historical data to provide strategic direction. This dynamic duo is not just about automation but elevating AP to a strategic function that fuels growth and innovation.

The Impact on Large Enterprises

The synergy of AI and data analytics brings many benefits and transformative outcomes to the AP process. This duo enhances financial management, AP operations, and decision-making, ultimately driving business towards success.

Enhanced efficiency and accuracy: AI automates repetitive, tedious tasks, leading to quicker processing times. AI's precision reduces the risk of human errors, ensuring financial accuracy.

Cost savings: Businesses can avoid late payments and associated fees with accelerated processing. Error reduction through AI diminishes the likelihood of compliance-related fines and penalties.

Improved decision-making: AI and data analytics insights enable optimised cash flow management and capital allocation. Performance analysis helps in supplier negotiations and fosters stronger partnerships.

Risk mitigation: AI and data analytics helps identify anomalies and potential fraud in real time. Regular monitoring can ensure compliance with regulations and industry standards.

Real time visibility: AI and data analytics provide real-time visibility into the AP process, enabling better tracking, reporting, and decision-making.

Scalability: AI-driven processes can easily scale with business growth without proportional increases in resource requirements.

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Customer and supplier satisfaction: AI ensures timely payments, increasing supplier satisfaction and potentially better terms.

Strategic resource allocation: Automating manual tasks relieves human resources for more strategic and value-added activities. Data analytics also helps businesses prioritise areas of improvement and allocate resources effectively.

Improve process quality by 10x with AI Automation

Up to 80% Processing cost savings	**Up to 10%** Improvement in working capital	**Up to 80%** Improvement in invoice cycle time
Up to 60% Reduction in time savings	**0% chance of penalties** Due to delayed or missed payments	**Up to 4%** Savings in accounts payable spends

Incorporating AI and data analytics into AP processes isn't just about operational efficiency; it's a strategic move that can drive a business towards success and competitiveness in today's dynamic business environment.

## Clear is Helping Businesses Transform Their AP Processes

Clear has launched **Clear AP** - India's first AI-powered accounts payable engine, to revolutionise the accounts payable process for businesses in India. **Clear AP** helps enterprises elevate their accounts payable through AI automation, vendor delight, working capital visibility and unrivalled process quality.

Through the Clear AP platform, businesses can leverage technology to:

• Automate invoice capture and digitisation into the ERP with OCR

• Get real-time visibility on invoice approvals and cash flows

• Process invoices faster through touchless, digital approvals

• Ensure invoice/vendor compliance through extensive validation checks

• Improve vendor relationships with timely payments

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Let's take a look at how AP automation works on the Clear AP platform.
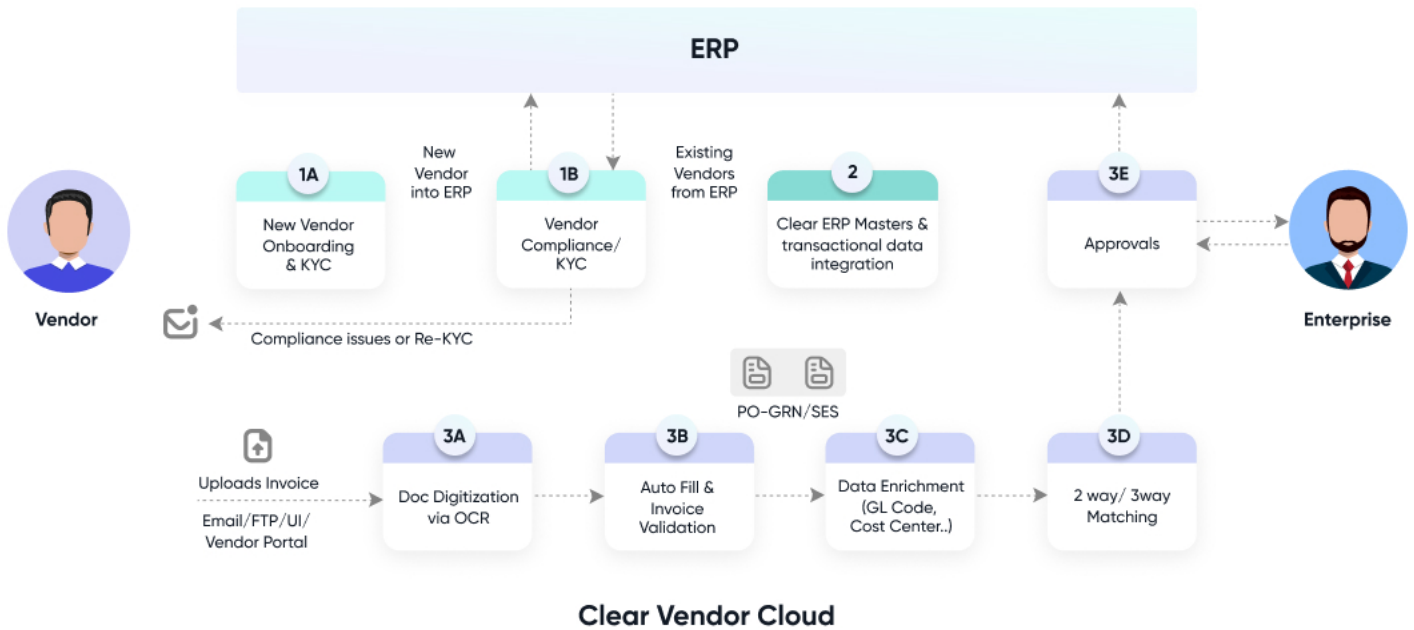
If you would like to explore how AI automation can elevate your enterprise's accounts payable process quality by 10x, please click on the link below. Our experts would love to walk you through the **Clear AP** platform.

Request a demo

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