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Beyond automation: the case for accounts receivable managed services

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Introduction

Accounts receivable (AR) is the lifeblood of any business. An efficient and effective AR process is essential to any company's growth and success, especially during turbulent economic times.

Like many back-office functions, AR is a sum of its parts. Inefficiencies in how lines of credit are issued, payments are processed, cash is applied, or past-due invoices are handled can contribute to unnecessary costs, cash flow disruptions, or an inability to accurately forecast and manage cash.

Modern technology is making it easier for businesses to stay on top of their AR.

But automation alone won't overcome the challenges that AR departments face. That's why more AR departments are embracing managed services that extend an AR team through a combination of subject matter expertise, funding, and modern technology.

These types of managed services get businesses out from under the significant costs of AR processing, enhance the customer experience, free up cash through guaranteed Days Sales Outstanding (DSO), and provide better visibility and control over cash flow and other key metrics.

This white paper reveals the shortcomings of AR automation alone and lays out the benefits of outsourcing AR to a managed services provider.

The AR automation conundrum

Automation is a top priority for many AR departments, whether they are planning to automate for the first time or upgrade or expand their existing technology to achieve incremental improvements in operational performance and cash flow.

60%

OF BUSINESSES ARE PREPARING TO AUTOMATE THEIR AR SYSTEMS[1]

Automating the AR process end-to-end can enhance the customer experience, accelerate Days Sales Outstanding (DSO) and cash flow, and provide better visibility and control over working capital.

64%

OF BUSINESSES ARE SHIFTING AWAY FROM PHYSICAL INVOICES[2]

Automation also eliminates manual, repetitive tasks such as keying remittance data, manually matching payments to open invoices, and generating reminders to customers about unpaid invoices. For instance, there's no need for staff to re-key invoice data into a customer's portal or manually create dunning letters if their department has the right technology. The efficiencies provided by AR automation free staff up to focus more time on growth-generating activities such as analyzing customer data for cross-selling opportunities and collaborating with coworkers on cash forecasts.

50%

OF BUSINESSES SAY THAT HIGH COSTS ARE AN ISSUE FOR THEIR AR TEAMS[3]

The business case for AR automation is proven and compelling. But automating AR is easier said than done.

The problem is that most businesses take a Do-It-Yourself (DIY) approach to automation, leaning on the technology provider and their internal resources to deploy, configure, and manage the solution.

Evaluating the dizzying array of software solutions required to automate AR end-to-end can overwhelm the most tech-savvy finance leader. Few systems can support the ever-changing mix of payments that AR departments receive. Additionally, most businesses don't have the capital budget, IT resources, or department manpower required to purchase, implement, and manage an end-to-end AR solution. Integrating an AR solution with your ERP and other legacy systems can be tricky, to say nothing of the complexity of connecting AR systems with the payables platforms that your customers use. Poorly integrated systems can create friction that traps working capital and impacts the customer experience.

Finally, there are no guarantees that an AR automation solution will work as advertised, potentially leaving an AR department in a worse place than where it started.

What's more, recruiting and retaining AR staff is harder these days. While a DIY AR approach reduces a company's staff requirements, it won't eliminate them. The labor crunch has business leaders asking whether they should get bogged down with recruiting, managing, and training staff for back-office functions that do not directly relate to the company's core business. For their part, workers would rather spend their days on more fulfilling tasks, not transaction processing.

Moreover, the challenge of recruiting and maintaining AR staff gets harder as a business grows. Most businesses must hire more staff to scale their AR operations to support global commerce. And every time an AR department adds a new solution, it increases the management and maintenance burden on its already strapped IT team. This complexity can impede an organization's growth.

It's no surprise that more businesses want to avoid the headache of automating AR on their own.

A better approach to AR

Automation clearly isn't enough to overcome today's AR challenges.

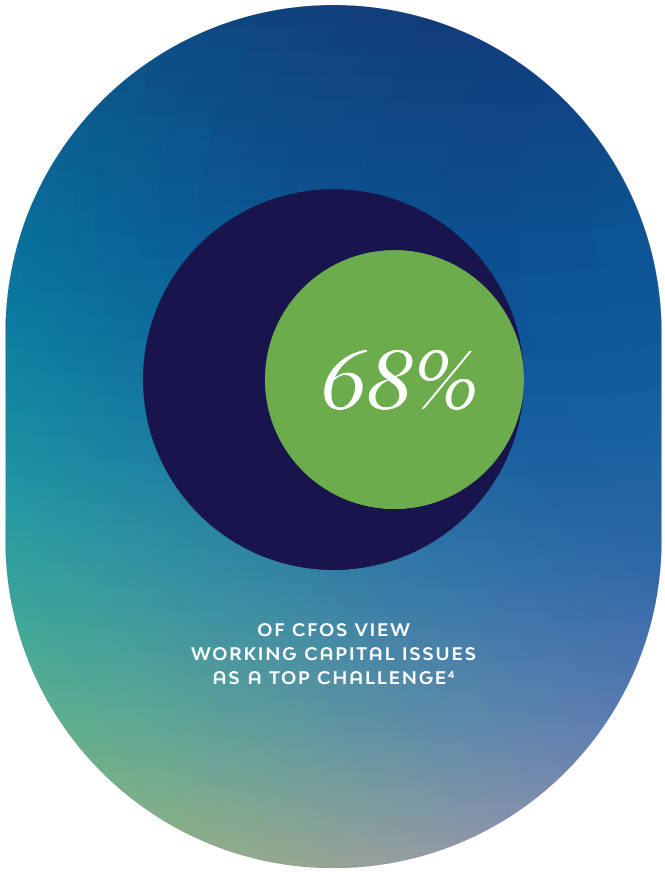
That's why more businesses are outsourcing their receivables ledger to managed services providers.

Managed services providers go beyond automation and take on the responsibility and risk of extending credit and collecting receivables from a biller's customers, with guaranteed AR outcomes.

In today's uncertain economy, this is a critical distinction between software and managed services.

Managed services providers can guarantee the payment of invoices within a specified number of days, to a supplier's payment terms. This guarantee of payment is funded and non-recourse, meaning a business can achieve cash flow certainty based on the value of its revenue bookings.

And suppliers don't have to restrict their credit policies to work with a managed services provider.



It's tempting to think that those types of guarantees require managed services providers to use brute force on a biller's customers. But that's not the case. Managed services providers act as an extension of a biller's staff and leverage a combination of subject matter experts, funding, and advanced technology to automate the entire AR lifecycle for businesses in any industry:

- **Credit management.** Managed services providers will take on a company's customer credit issuance processes – from assessing a company's current credit risk and conducting credit checks through the issuance of lines of credit – and assume the company's credit risk.

- **Invoicing and billing.** Managed services providers automate the validation, presentment, and distribution of invoices on behalf of suppliers, reducing costs and speeding cash flow.

- **Cash application.** Imagine if your business received all its outstanding receivables in a single payment, on the due date, whether it was 5 days, 15 days, or 30 days. Managed services providers make this possible by removing the burden of cash application from a company's shoulders, managing payment and remittance processing, invoice matching, and reconciliation, and guaranteeing that the biller will get paid to terms.

AVERAGE DSO IN WESTERN EUROPE STOOD AT

98 days

IN 2020[5]

- **Dispute management.** Managed services providers take the lead on mitigating and resolving invoice disputes, only involving a supplier's AR staff when necessary.

- **Collections management.** Managed services providers employ a team of collections experts to reduce a company's aging balances, without damaging valued customer relationships.

49%

OF CFOS ARE IMMEDIATELY FOCUSED ON LIQUIDITY[6]

- **Reporting.** Managed services providers put smart insights at the fingertips of the people who need them, when they need them. Built-in reports empower decision-makers with instant access to actionable data such as receivables performance, customer risk profiling, aging balances, DSO, corporate spending, sales, and month's end and year's end accounting.

52%

OF CFOS ARE OPEN TO LEVERAGING THIRD PARTIES FOR HANDLING FINANCE AND ACCOUNTING FUNCTIONS[7]

Importantly, managed services can be scaled up or down, without delay or additional costs.

Why AR managed services

A combination of software and managed services may be what AR departments need at times like these.

For starters, partnering with a managed services provider relieves an AR department of the costs of IT overhead, software license fees, expensive check and document scanners, and staff recruiting.

In fact, most AR departments fund managed services projects through the working capital freed up by accelerating DSO and receiving payments on a specified day.

But cost savings aren't the only advantage of outsourcing AR to a managed services provider. Managed services deliver three strategic benefits that can help a business grow and succeed.

1. **Reduced DSO and faster cash flow.** The economic turbulence that businesses experienced during the pandemic highlighted the need for a steady cash flow. Businesses need cash to purchase raw materials, manufacture and distribute finished goods, pay sales and marketing costs, cover payroll, legal and administration expenses, and more. The more outstanding invoices and aged debt a supplier has, the less cash it has on hand to pay liabilities. Partnering with the right managed services provider gives a business the assurance that it will be paid for all its invoices within a specified number of days. A business with an average DSO of 45 days can free up a lot of working capital by setting the date that they get paid by the managed services provider at 15 days. The managed services provider offers the supplier funding to cover any gap between the date the biller is paid and when the managed services provider collects the invoice payment from the customer. And the non-recourse guarantee that's built into these arrangements essentially removes a supplier's risk of bad debt. The managed services provider absorbs the expense of any receivables that go unpaid. The result is more accurate cash forecasting and the ability for CFOs to spend with confidence. It's no wonder that businesses that rely on manual AR processes have 30 percent longer DSO, on average, than their peers with a medium or high level of automation. Improvements in DSO liberate cash that can be put to work in profitable ways, rather than funding customers' desire for longer payment terms.

Accounts receivable is typically a company's largest asset[9]

2. **Enhanced customer experience.** Digital payment methods are reshaping the way that customers pay for purchases and interact with suppliers. Customers expect a frictionless and efficient process where they know where things stand and are in control every step along the way. Business-to-consumer (B2C) companies like Apple, Uber, and Amazon have played a big role in resetting customer expectations for the payments experience. To keep existing customers happy and drive revenue growth, businesses must now digitize and simplify their billing and payment processes for business customers. Managed services enhance the customer experience in two ways:

   - **More payment options.** The more payment options that a supplier offers, the more likely its customers will pay in a timely manner. Managed services provide a single online platform that supports popular payment methods such as Automated Clearing House (ACH), bank transfers, and debit, credit, and virtual card transactions. What's more, an online payment portal empowers customers to take control of their payment preferences and instantly view their payment history.

   - **Insights at a customer's fingertips.** Few consumers would pay a bill without knowing the details of what they're paying for. But that's largely the way that business-to-business payments have operated for years. Most suppliers don't provide their business customers with all the information they need to determine whether they should pay a bill. The result is days or weeks of back-and-forth phone calls and emails between parties trying to get to the bottom of things. No wonder so many invoices are paid late. Managed services leverage online portals and digital connectivity between the systems of record used by suppliers and customers to provide buyers with real-time visibility into their invoices, in-progress and completed payments, and outstanding credits. Buyers also can see the status of invoice disputes. And suppliers and buyers can electronically collaborate to resolve any disputes.

43%

OF THE TOTAL VALUE OF ALL INVOICES ISSUED IN CANADA, MEXICO, AND THE UNITED STATES WAS PAID LATE IN 2020 – A SIGNIFICANT INCREASE FROM THE PREVIOUS YEAR[10]

Unfettered customer access to billing and payment information reduces AR friction

3. **Improved visibility.** Economic volatility can make it hard to predict cash flow. Businesses make matters worse by relying on a hodgepodge of point solutions and closed-loop networks for managing and forecasting cash, calculating DSO, and tracking metrics such as aging balances and write-offs. Many AR departments spend weeks manually creating and exporting reports from spreadsheets and systems such as ERP applications, bank treasury workstations, and e-commerce sites. AR departments can take full control over cash flow and make better working capital decisions by partnering with a managed services provider to digitize your AR process. Graphical dashboards provide the real-time status of payments and Key Performance Indicators (KPIs). Drill-down capabilities enable AR departments to dig into information by business unit, division, or customer. Exports makes it easy to get information downstream fast. Ad hoc reporting empowers AR leaders to adapt their reports to changing business requirements. Built-in cash forecasting and scenario-planning tools can instantly show decision-makers their future cash needs and warn them of potential cash gaps. Some solutions also generate automated aging reports, so finance leaders always know how much money they're owed is outstanding. And seamless integration with your ERP or other systems of record provides 360-degree visibility into payments and customer relationships.

7 out of 10

FINANCE LEADERS ARE CONDUCTING CASH FLOW FORECASTS MORE FREQUENTLY[11]

Conclusion

Now is the time for businesses to rethink the way their AR department operates and its underlying cost structure. An efficient and effective AR process can help a business deliver a better customer experience, accelerate cash flow for lower DSO, and achieve real-time visibility into cash flow and other metrics. But organizations will need more than automation to achieve the full value of these benefits. DIY automation projects are expensive, timeconsuming, risky, and a burden on staff. It's only when a business leverages a managed services provider that combines subject matter expertise, funding, and advanced technology that it can be confident that it will achieve optimal operations performance and working capital management.

Reference

[1] PYMNTS.com and American Express, B2B Payments Innovation Readiness, 2020

[2] PYMNTS.com and American Express, B2B Payments Innovation Readiness, 2020

[3] PYMNTS.com and American Express, B2B Payments Innovation Readiness, 2020

[4] Everest Group, 2020 Global CFO Survey

[5] Atradius, Payment Practices Barometer, 2020

[6] Everest Group, 2020 Global CFO Survey

[7] Everest Group, 2020 Global CFO Survey

[8] PYMNTS.com and American Express, B2B Payments Innovation Readiness, 2020

[9] IDC, 2020

[10] Atradius, USMCA Payment Practices Barometer, July 2020

[11] Gartner, 2020

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