The Missing Link Between Accounts Receivable and Better Cash Flow

How more tightly linking invoice presentment with receivables processing lowers DSO, enhances financial visibility and control, and improves cash flow forecasting.
Invoices are a critical part of day-to-day business transactions. They facilitate the collection of cash required to acquire raw materials, sustain the cost of manufacturing goods, and pay for the delivery of goods. The cash collected via invoices also supports the cost of staff and other overhead expenses. Invoices also are integral to how suppliers interface with customers.

Yet most billers rely on outdated paper billing processes that create avoidable profit leakage and delays in payment collection as a result of lost, unprocessed or disputed invoices. In fact, the Institute of Financial Management (IOFM) reports that accounts payable departments still receive the majority of their invoices as paper, 83 percent of businesses distribute at least some of their invoices as paper, and 87 percent of billers send at least some of their invoices as an e-mail attachment (chiefly to satisfy client expectations for electronic invoicing).

With such a great dependence on costly and inefficient paper processes, it is no wonder almost 60 percent of businesses are dissatisfied with their receivables processes and that the primary challenges identified by accounts receivable professionals are:

- Timeliness of payments
- Processing delays
- Reconciliation
- Economic issues
- Invoicing issues

All of these challenges can be traced back, at least in part, to ineffective invoicing.

On the bright side, suppliers are migrating towards more efficient electronic invoicing, even if it is mainly to reduce costs.

But traditional approaches to electronic invoicing – to say nothing of paper presentment – do not go far enough in addressing the primary contributors to the issues cited by receivables professionals:

- No tracking of invoice status
- Long and complicated dispute resolution
- Lack of visibility into receivables information

This white paper details the payment collections challenges of traditional paper and electronic approaches to invoice delivery, how more tightly linking invoice presentment and processing uniquely addresses these challenges, and the operational and financial benefits of this approach.

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1. Aite Group
DSO is a key metric in determining a corporation’s effectiveness in collecting receivables. A challenge for all organizations, very high DSO is an especially big problem for small and mid-sized businesses, which are waiting an average of 72 days for payment of invoices, the Asset Based Finance Association (ABFA) reports. Incredibly, that’s up from an average of 61 days at the height of the recession in 2009.

Not surprisingly:

- **54 percent** of executives prioritize DSO reduction over all other order-to-cash improvements, including better forecasting, increased transaction efficiency, and lower credit risk.

- **54 percent** of senior financial executives report that reducing DSO is their top objective for improving cash management.

- **40 percent** of businesses say that decreased invoice cycle times is their top driver of accounts receivable automation.

Why? Because it is difficult, if not impossible, for accounts receivable staff to resolve these issues in a timely manner without the ability to easily research the deliverability of invoices, records of previous discussions, help-desk notes and sales correspondence, call-up associated contract documents or Service Level Agreements (SLAs), and/or view rejection claims.

As a result, nearly 30 percent of businesses surveyed the IFO in 2014 cited improving visibility into invoice status (i.e. increased invoice transparency) as their top driver of accounts receivables automation. In fact, 23.2 percent of accounts receivables departments identified centralized visibility into receivables information as their top strategic priority for 2015.

2: Lack of visibility into receivables information

One of the lessons that businesses learned from the Great Recession is the need to better manage their cash. As a result, businesses are acutely focused on cash analysis (sales forecasting, inventory, and cash flow) and liquidity management (cash balances and short-term investments).

However, 41 percent of senior finance executives surveyed by IOFM in 2014 identified a **lack of visibility** into receivables information as their company’s top challenge in doing so.

Poor visibility into accounts receivable processes exacerbates the impact of late payments, short payments, unauthorized discounts, disputes over tax rates, contract disputes, and unrecoverable debts.

3: Long and complicated dispute resolution

Exceptions are the bane of accounts receivable processing, particularly for complex business-to-business payments. The average business loses 2 percent of its revenues each year to unauthorized deductions, according to research from AIIM and the U.S. Department of Commerce reports that it costs U.S. businesses $700 million annually to resolve payments exceptions.

These staggering costs speak to the lack of visibility businesses have into disputed invoices and to the complexity of resolving disputes in a manner that has the least negative impact on cash flow.

Not surprisingly, thirty-five percent of finance executives surveyed by IOFM identify a high percentage of exceptions as their company’s top receivable challenge and nearly 20 percent of businesses say that reducing disputes and write-offs...
is their top driver for accounts receivable automation, according to IFO.

The root of the problem is that billers typically become aware of invoice disputes only after payment has been delayed or a short-payment has been received which then leads to time consuming back-and-forth via telephone and e-mail, and the scanning of supplemental documents.

Clearly, reducing the number of unauthorized exceptions and more efficiently and effectively resolving invoice disputes would deliver significant operational and financial benefits.

The Solution

The solution to these challenges is for billers to stop sending invoices and hoping for the best.

To truly affect collections, billers need to more tightly link invoice delivery and processing to:

1. Track invoice status
2. Achieve better visibility into receivables data
3. Collaborate with clients on disputes

To achieve this, organizations should consider a holistic and cohesive solution that offers complete visibility and control over the processing, flow and resolution of their invoices.

Working with the customer’s existing ERP and document output management systems, these solutions not only deliver invoices, they monitor their status, highlight exceptions to reduce DSO and improve cash flow, and provide data, insights and trends that can help drive financial decisions.

The Benefits

Tightly linking invoice delivery and processing uniquely addresses the top collections challenges:

- **Visibility and control:** Real-time tracking of electronic invoices that have not been received, viewed or processed by customers provides billers with insights into ‘cash at risk.’ In addition to the peace of mind that invoices were received, this information enables billers to proactively resolve issues earlier in the payment cycle. For instance, as errors are rectified, receivables staff can focus their attention on unprocessed invoices. Faster payments collection leads to better management of buyers’ credit, less borrowing by the supplier, and better matching of incoming cash to working capital needs.

- **Enhanced reporting and analytics:** Improved visibility into receivables leads to better management of credit extensions, strengthens cash flow forecasting to lower borrowing costs, and improves liquidity and working capital management. Capturing receivables data such as payment timeliness and the frequency of deductions taken by specific customers also arms suppliers with critical information for adjusting pricing or renegotiating payment terms.

- **Faster, less costly dispute resolution:** Collaborating with coworkers and customers online to resolve exceptions eliminates much of the time and cost of resolving exceptions with traditional invoice presentation approaches. It also helps ensure that billers are paid within contracted or mutually agreed upon terms (fewer write-offs). Online collaboration directly addresses unauthorized deductions, which cost businesses an average of 2 percent of total annual revenues, according to AIIM research. Online collaboration also strengthens client relationships through enhanced transparency and the ability to exchange immediate feedback.

The U.S. Department of Commerce reports that it costs U.S. businesses $700 million annually to resolve payments exceptions.
Conclusion

Nearly 60 percent of senior receivables and treasury managers surveyed by Aite Group are less than fully satisfied with the company’s accounts receivables and cash application processes.

Improving payment collection goes a long way to improving this situation. But electronic invoicing doesn’t go far enough. Billers must tightly link invoice delivery with processing to track invoice status, facilitate online dispute resolution, and gain visibility into receivables data. In doing so, billers can reduce DSO, enhance visibility and control, and improve cash flow forecasting. These benefits not only improve operation, they also pay strategic benefits to the enterprise.

Case Study

The combined effect of these capabilities is a significant financial benefit. Let’s take the example of a business with $200 million in annual revenues. Based on industry benchmarks, the biller likely has $20 million in revenue at risk every year from the collections challenges described above. A modest two-day improvement in DSO from linking invoice delivery and processing delivers a $109,589 gain in cash flow, $20,822 in savings on bank charges and $5,750 in efficiency improvements. The biller saves more than $26,000 a year by linking payment collection and processing to track invoice status in real-time, collaborate with customers on disputes, and gain visibility into receivables information.

About The Accounts Receivable Network

The Accounts Receivable Network is the leading provider of training, education and certification programs specifically for Accounts Receivable, Order-to-Cash, Global and Shared Services professionals.

Membership to The Accounts Receivable Network (www.tarn.com) provides comprehensive tools and resources to financial operations professionals who manage or are deeply involved in the Accounts Receivable and Order-to-Cash process.

Topics include Accounts Receivable and Order-to-Cash Policies, Managing Customer Information, Process Automation Technologies, AR Compliance (Sales & Use Tax, Canadian Tax, Sarbanes-Oxley, Escheatment, Government Restriction Lists and Uniform Commercial Code), and Accounts Receivable and Order-to-Cash management issues.

A membership to The Accounts Receivable Network provides tangible ROI to any organization – saving your organization time and money.

Nearly 10,000 professionals have been certified as an Accredited Receivables Specialist or Manager (available in English, Simple Chinese and Spanish) through The Accounts Receivable Network and its parent company, the Institute of Finance & Management.

The Accounts Receivable Network also hosts the annual Accounts Receivable & Order-to-Cash conference, designed to facilitate education and peer networking.

The Accounts Receivable Network is produced by the Institute of Finance and Management (IOFM), which is the leading organization providing training, education and certification programs specifically for professionals in Accounts Payable, Procure-to-Pay, Accounts Receivable, and Order-to-Cash, as well as key tax and compliance resources for Global and Shared Services professionals, Controllers and their F&A teams. With a universe of over 100,000 financial operations professionals, IOFM is the trusted source of information in the rapidly evolving field of financial operations. Visit www.tarn.com to learn more.

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