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CUSTOMER-TO-CASH PROCESS PERSPECTIVE
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Reinventing Accounts Receivable by Focusing on the Customer

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EXECUTIVE SUMMARY

To date, most organizations have sought to improve the accounts receivable process by automating manual activities to reduce headcount. However, this internally focused mindset fails to get at the core of many traditional pain points, which typically result from a high degree of friction in the payment process. Simplifying the conversation between buyers and sellers using solutions that enable data transparency, real-time collaboration and diverse payment options can help accounts receivable leaders create a new digital engagement model that not only minimizes human intervention, but increases the likelihood of being paid early or on time. These improvements also build more strategic relationships with buyers, a driver of higher retention rates and sales growth.

DRIVERS OF CHANGE

CFOs are playing an expanded role in supporting and directing enterprise sales and revenue growth. In our 2021 Key Issues Study, we found that assisting in executing sales initiatives and enabling top-line growth are two of the most important management requirements of finance organizations this year. Meeting these objectives means reaching beyond traditional internal efficiency improvements for new sources of value.

Currently, different parts of the finance organization are reviewing their process designs from a fresh perspective: that of internal and external customers. Thanks to a variety of new technologies, it is becoming easier to enable digital engagement models that offer new ways to interact with stakeholders.

With many companies facing liquidity pressures due to pandemic-sparked changes in the business environment, CFOs are focused on preserving cash through more-disciplined management of working capital. Accounts receivable, which touches external customers directly through billing and collections, is increasingly an area of interest. One reason is that companies are building a bigger liquidity buffer because pandemic-driven business disruption has made it harder to forecast cash.

The pressure to optimize working capital will persist as business conditions remain unclear and a surge in Covid infections threatens to prolong economic uncertainty. Therefore, accounts receivable leaders will have to increase their process efficiency and remove any obstacles to prompt payment. Once inefficiencies have been wrung out of processes themselves, improving customer interactions becomes a logical target for speeding payments.

Clearly, achieving optimal efficiency remains very important, but it also represents an outdated view of the role of accounts receivable management (see sidebar on next page). Because traditional automation

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solutions merely substitute human effort with machine work, they do not address the root cause of some of the most common hurdles to effective accounts receivable management: breakdowns in communication between buyer and seller, for example the inability to capture remittance data alongside payment instructions or automatically apply outstanding credits.

Also, payments may be delayed because customers lack visibility into past invoices to verify that account reporting is correct. Another impediment is the inability to automatically synchronize the supplier's invoicing system with the buyer's accounts payable portal. Efficiency-only initiatives miss the last-mile of digital transformation, i.e., the company's relationship with its customers. When customers have a smooth payment experience, they are more likely to pay on time or even early to capture a discount. They are also more likely to designate a company as a supplier of choice – thus helping meet management's expectations in 2021 that finance organizations should contribute to customer retention and drive sales.

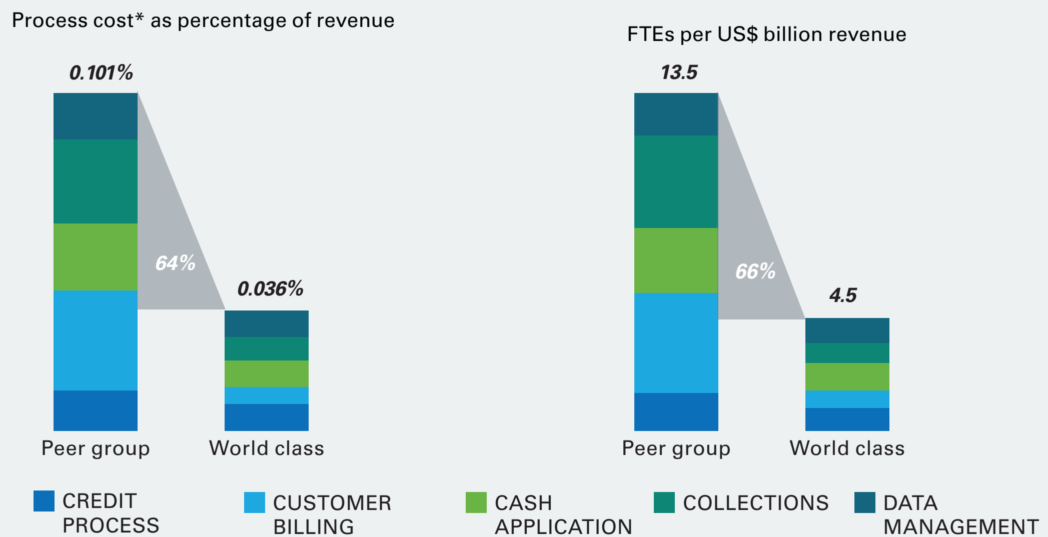
Beyond efficiency

Like other parts of the enterprise, finance organizations are under rising pressure to reduce cost. Participants in our 2021 Key Issues Study expect the finance operating budget to contract by 3.3% this year versus 2020, and headcount is projected to be 4.4% lower. The resulting productivity gap is encouraging the acceleration of digital transformation initiatives. Our research shows that the top initiative on the finance transformation agenda for 2021 is reducing cost through automation.

Traditionally, accounts receivable automation focused almost exclusively on increasing efficiency through the elimination of manual work. For example, organizations reduced cost by sending bills electronically, using OCR to capture and automate check payments, and turning on auto-matching capabilities for cash application.

These first-generation efforts have paid off handsomely: Our data shows that world-class finance organizations, which exhibit higher automation levels, spend 64% less on the customer-to-cash process as a percentage of revenue and employ 66% fewer staff than the peer group. Some of the biggest gaps between the two comparison groups are in customer billing and collections. The cost of billing for world-class organizations is six times lower than for the peer group. In the case of collections, peers spend nearly four times as much as world-class organizations **(Fig. A)**.

FIG. A Customer-to-cash efficiency metrics



Source: The Hackett Group, 2020

*Process cost = Labor + outsourcing

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FROM SYSTEM OF RECORD TO SYSTEM OF INSIGHT

While there are significant benefits to reducing the friction in current payment processes, this does not necessarily mean ripping out existing systems of record or other point solutions. Instead, companies can complement what they have by adding on a more customer-centric interface that enables users to select payment methods, access their account information, dynamically resolve any issues and extract insight.

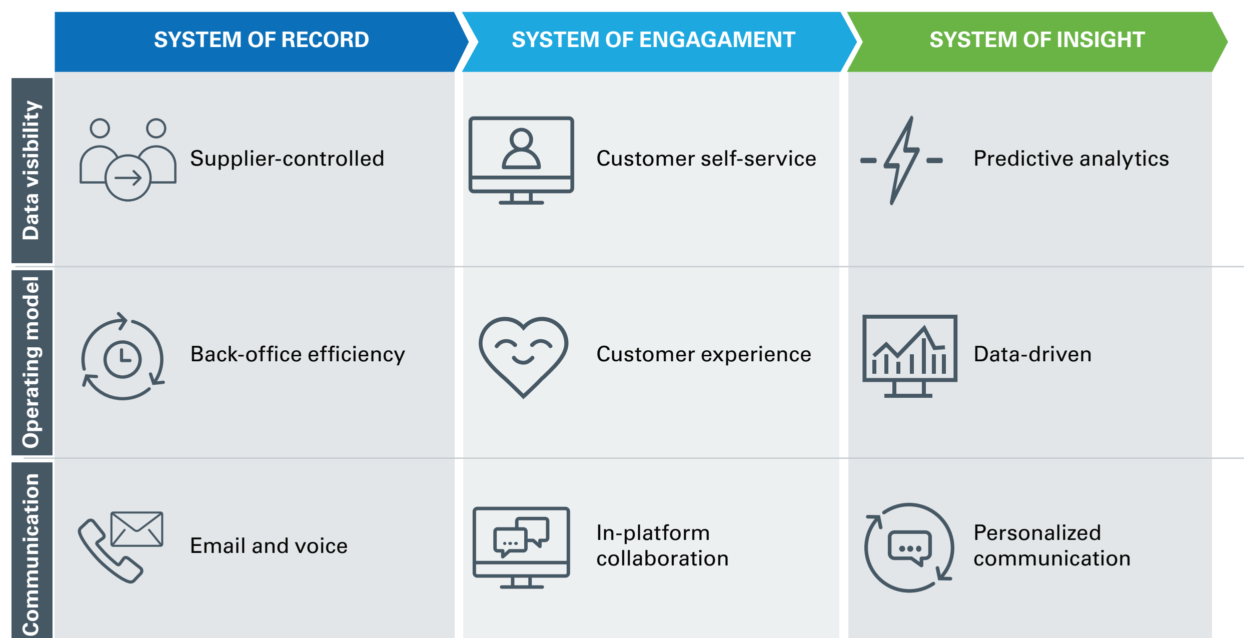
Some accounts receivable management technologies are evolving from primarily systems of record to a source of data and insight for buyers and sellers (**Fig. 1**). Older systems capture customer information and automate manual activities, but continue to require email and voice interactions to resolve questions or problems (**Fig. 2** on next page). When customers use email and phone calls to track payment progression and resolve disputes, their conversations are not centralized or captured within the system, creating multiple sources of information about the payment status.

In contrast, a system of engagement connects buyers and suppliers online, providing buyers with visibility into their invoices and payments and offering self-service tools to manage their accounts. Online access to account information allows customers to make informed decisions about when and how to pay in the most advantageous way. Greater engagement is also achieved through social media-like collaboration tools, so customers can chat with representatives, ask questions and get answers in real time.

With rising emphasis on producing predictive and productive insights from transaction data, technology suppliers are also bringing solutions to market that enable accounts receivable teams to access validated data. However, insight cannot come at the expense of engagement, or only the seller would benefit.

Once digital links are established, both sides of the transaction can mine the data. For example, suppliers can predict whether a customer is likely to pay late and target collection efforts and offer payment terms

FIG. 1 Evolution of accounts receivable technology



Source: The Hackett Group

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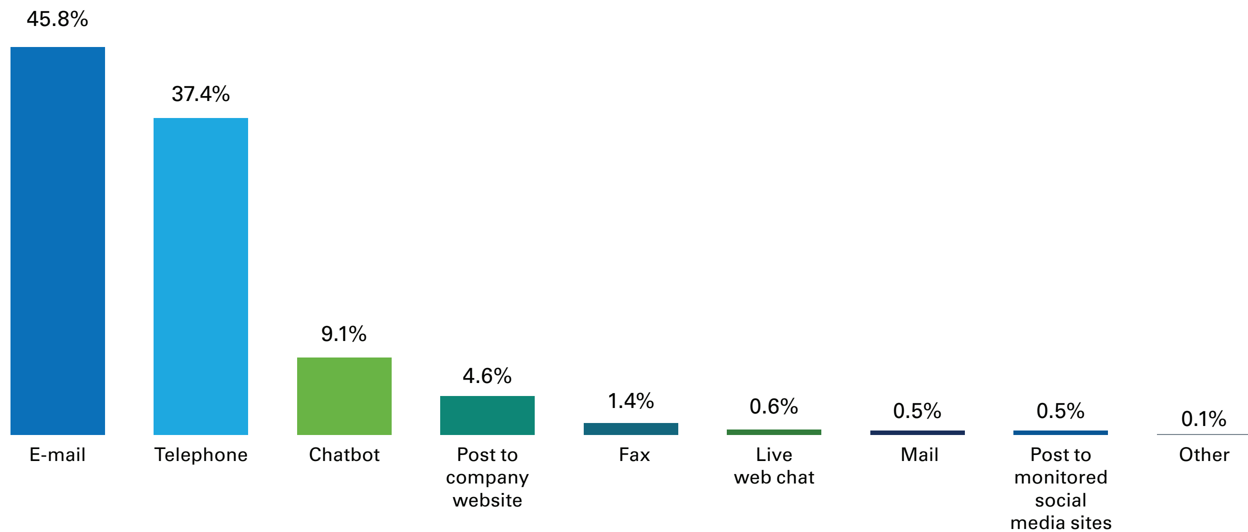
FIG. 2 Percentage of customer service inquiries via different methods (annually)



Source: Customer Experience Poll, The Hackett Group, 2019

and options based on historical patterns. In another example, if a customer prefers to pay by credit card, the supplier can choose to accept a card only for early payments.

Meanwhile, customers can use the solution to analyze their history with the supplier to calculate how much they could save from taking advantage of different payment terms and discount offers. Thus, accounts payable teams can have an easier time determining where DPO can be optimized and balanced against the potential return on cash that arises from early payment. For example, paying one supplier later can free up cash to pay another earlier and earn an attractive rate of return.

GAINING CUSTOMER BUY-IN

Suppliers have a lot to gain from a seamless digital connection with customers, but the problem with most vendor-agnostic and vendor-specific portals has been difficulty encouraging enough customers to get on board. Without that critical mass, suppliers cannot realize any efficiency or effectiveness benefits, such as quicker dispute resolution, the ability to target collection efforts, or leveraging the portal's capabilities to increase retention or sales.

Customers, on the other hand, will look at the portal and question what’s in it for them; absent advantageous features and ease of use, they are unlikely to sign up.

To gain traction with customers, suppliers need to understand and communicate the value of the portal. To do this, they should deploy multiple onboarding strategies through a targeted, automated marketing campaign that considers the needs of specific customer segments. For example, they can demonstrate the efficacy of the solution by offering non-registered users some of its communication-enhancing features.

In addition, each email to customers should contain a direct link to an invoice or account information within the new solution, much like LinkedIn's "push" emails, which leverage AI to discern what each customer wants to see. Once buyers click on the link, they are taken directly to the new platform and can experience its benefits. Meanwhile, the seller can track the progression of customers' clicks and tailor the next set of alerts as well as see when a customer transitions from an ad-hoc to a registered user.

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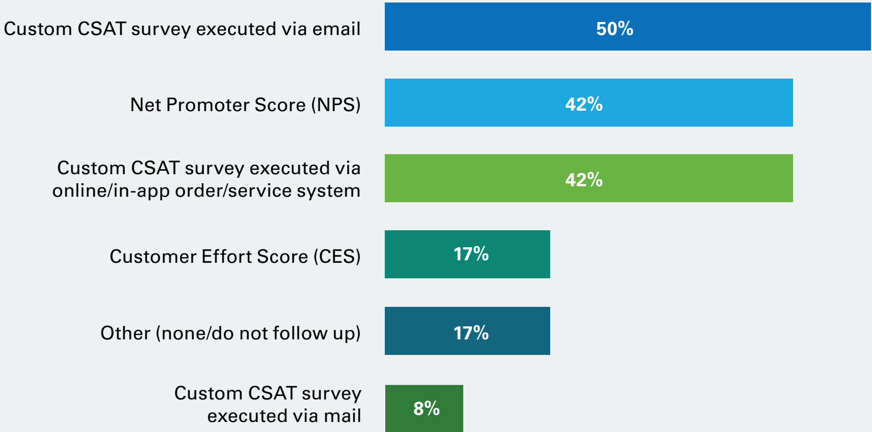
Defining new KPIs

Traditional accounts receivable automation solutions are measured in terms of their impact on process efficiency, such as transaction volume reduction or cost per transaction (e.g., invoices, payments, collection contacts). However, these KPIs fail to measure the customer experience. To gauge whether the process is of value to the customer, accounts receivable leaders need to develop a new set of key performance indicators.

Some organizations have already begun to apply different KPIs, like customer surveys, net promoter scores and customer effort scores, to assessing their customers' experience **(Fig. B)**. These are a good start. Additional metrics, albeit indirect, can include the number of customers paying online and percentage of customers signing up for the solutions.

But to truly understand whether the solution delivers on its promise of transforming the accounts receivable process, suppliers should figure out ways to measure customer engagement. For example: communication activity inside the platform or time required to resolve disputes compared to email or phone calls. Ultimately, the best KPIs track the impact of the system on business results, such as retention levels or increased sales per customer.

FIG. B Methods used to measure customer satisfaction



Source: Customer Experience Poll, The Hackett Group, 2019

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Example: Healthcare products distributor

This company had adopted a traditional accounts receivable solution in 2014 but was dissatisfied with the low percentage of customers using the front-end interface. Indeed, by the time the company decided to switch from its existing solution to a more customer-centric option (in 2020), only 11% of its 90,000 customers had signed up. This low level of engagement prevented the company from realizing expected efficiency and effectiveness benefits, or delivering a better customer experience.

This experience convinced accounts receivable leaders that, in order to significantly increase customer use, customers needed to see the value of making the transition. To help select a new solution, they invited one of their largest customers to a system demonstration. The customer's feedback was very positive, particularly about the solution's extensive self-service capabilities and the choice of payment methods.

This time, to ensure a much higher customer engagement level, the company embraced a phased onboarding strategy. It first concentrated on users of its legacy system, since they were already set up to communicate electronically. The next target group was customers currently using email for communication, since they have the capability to transact electronically. The final segment (and likely the hardest to convince) includes customers that still rely on paper and mail for invoices and payments. For most of them, reluctance to go online reflects an innate resistance to doing things differently. The plan is to use direct outreach to make them aware of the user-friendliness and flexibility of the new system. If customers continue to resist, the company may require use of the portal as a condition for doing business.

Since rolling out the new system, there has been a 2.5X increase in the number of registered users. To monitor progress, accounts receivable is relying on usage metrics embedded in the platform, which tracks the number of visitors to the portal, percentage of registered but inactive customers, and percentage paying through the platform. As the company reaches its new engagement targets, the true measure of success will become the portal’s impact on payment timeliness and revenue.

CONCLUSION AND RECOMMENDATIONS

Our Customer-to-Cash Customer Experience Poll (2019) revealed that organizations are becoming more attuned to their customers' needs. For example, 64% said they have a formal process to respond to customer feedback. Yet most of that feedback still comes in the form of telephone calls and emails. Plus, only half of respondents said their customers characterize their service as either "great" or "excellent."

Here are four steps companies can take to reduce payment friction and enhance their customers’ experience:

1. **Make it easy to pay by offering a menu of payment methods.** For example, customers may want to use a credit card because they get rebates, or because it takes less time to approve a card payment versus cutting a check or sending an ACH payment from their ERP.

2. **Build greater digital engagement.** By connecting the systems at both ends of the transaction, accounts payable and accounts receivable can communicate directly.

3. **Deliver end-to-end process transparency.** When customers have visibility into payment flow and data, they will send fewer emails and make fewer phone calls. Data accessibility also allows suppliers and buyers to obtain insights that can help them save time, leverage payment terms, target collections and assess the value provided by the relationship. In addition, when customers know what the supplier thinks they owe, including current and past invoices, credits, deductions and other charges, they can use self-service features to validate account accuracy.

4. **Offer in-platform communications.** By leveraging a solution to create a centralized communication "hub," suppliers can simplify and enable online discussions about payments, speed up dispute resolution, route conversations to the right people, and consolidate tracking of account communication.

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Ms. Essaides has over 25 years of experience researching, writing, and speaking about finance and treasury issues, with a focus on the way finance adds value to the enterprise through excellence in financial management and planning processes. Previously, she worked at the Association for Financial Professionals, where she led the Financial Planning and Analysis practice. A prolific blogger with thousands of LinkedIn followers, she writes for publications such as Digitalist. In addition, she co-authored a book about the internal transfer of best practices, titled *If Only We Knew What We Know* (Simon & Schuster).

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