HOW DELIVERING A BETTER RECEIVABLES EXPERIENCE CAN IMPROVE A SUPPLIER'S CASHFLOW

IOFM Institute of Finance & Management

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Collecting receivables can be hard under the best of circumstances.

Customers want to hang onto their cash, after all.

But in a turbulent economy, collections can feel like an uphill battle:

- Sixty-five percent of businesses say their average days late has increased in 2020.
- Fifty-five percent of businesses report higher Days Sales Outstanding (DSO).
- Fifty-five percent of businesses say their aging balance has grown.
- Nineteen percent of businesses have experienced more bad debt.
- Six percent of businesses report more customer disputes.

These statistics from a poll conducted during a 2020 virtual town hall meeting held by the Institute of Finance and Management (IOFM) illustrate the cashflow challenges suppliers face in tough times.

And suppliers are not out of the woods yet. Quarterly Gross Domestic Product (GDP) in the second quarter of 2020 could decline by as much as 40 percent, McKinsey & Company predicts.

Navigating within an uncertain economy requires businesses to focus on cash and liquidity. Improving cash flow is critical for:

- Reducing liquidity risk
- Optimizing working capital
- Reducing borrowing costs
- Increasing investment returns
- Maximizing shareholder value

One way that suppliers can improve their cashflow is by transforming the experience that they deliver to customers across the accounts-receivable lifecycle, from the time an order is fulfilled until a payment is reconciled. This can be done with a new breed of automated accounts receivable solutions that do more than streamline back-office processes; they draw customers online and away from paper-based processes. Delivering a superior experience – the various interactions that a business has with its customers – can go a long way towards improving cash conversion.

Companies that shifted their focus towards an exceptional customer experience increased their revenue by 70 percent within 36 months, according to a recent study published by the Temkin Group.

This paper will show you how rethinking the accounts receivables experience can improve cashflow.

The United States is in the worst economic downturn since the Great Depression[1]

55%

of accounts receivable leaders say their organization's Days Sales Outstanding have been negatively impacted by the economic fallout of the pandemic.

1 The International Monetary Fund
2 Institute of Finance and Management Virtual Town Hall Meeting, May 2020

Changing expectations

Once a deal is closed, receivables is one of the most impactful touchpoints in a customer relationship.

A bad experience at any step along the accounts-receivables lifecycle – invoicing, payment or collections – can break a customer relationship.

Customer self-care, online shopping, mobile banking, and on-demand services have conditioned customers to expect instant gratification from their experiences with businesses.

So, what makes an exceptional customer experience?

When it comes to accounts receivable, buyers expect the personalized level of experience that they have become accustomed to when making purchases in their consumer lives. Buyers want:

- Online experiences, not paper-based ones
- Easy to understand invoices, delivered in their desired format
- Flexibility to choose their preferred payment method, with a seamless experience
- Convenient options for recurring payments, making short payments, and paying multiple invoices
- Information about their account at their fingertips and online hel p when they need it

Even small customers expect personalized, digital, and on-demand experiences from their suppliers. The trend is being driven, in part, by the influx of tech-savvy millennials and post-millennials into the workforce. The rising popularity of online payments also is creating the new expectations for receivables. Two-thirds of businesses have gone digital for more than 30 percent of their payments[3].

Unfortunately, 45 percent of suppliers are falling short of customer expectations[4], in large part, because they do not provide the seamless and on-demand experience that customers expect.

The root of the problem is the antiquated receivables processes that most businesses depend on. Most businesses manage their receivables using a hodgepodge of inflexible and poorly integrated paper-centric systems and processes. Additionally, most enterprise resource planning (ERP) platforms were built to manage data, not to serve customers. And driving adoption to online portals and other customer-facing tools has been an afterthought. As a result, most suppliers can only afford to provide customized service, such as a choice in invoice delivery or payment method, to their largest customers. Other customers must settle for interactions that might not meet their needs.

But it is not just customers who are negatively impacted by the old ways of doing things.

An excess of features, baited rebates, and paucity of the personal touch are all evidence of indifference to what should be a company's first concern: the quality of the customers' experience[5]

Sixty-one percent of accounts receivable professionals are working longer hours since the start of 2020, per the results of a poll conducted during a virtual town hall meeting held by IOFM. More than one-quarter of accounts receivable professionals are working an additional two or more hours per day – a staggering statistic when you consider the long days receivables pros logged before 2020.

3 Harvard Business Review Analytic Service Survey, August 2018
4 Salesforce report
5 Harvard Business Review article

Suppliers are clearly struggling to adapt manual, outdated receivables processes to the new reality.

No wonder that 37 percent of businesses say they are "very dissatisfied" or "rather dissatisfied" with their current receivables processes, according to the results of the online poll conducted by IOFM.

Suppliers cannot afford to let deficiencies in their receivables systems and processes go unchecked.

The competition for customers is rising. And customers will not hesitate to take their business to a supplier that they believe will be easier to do business with. The revenue, profitability, and cashflow issues caused by the economic downturn are raising the stakes for suppliers to get things right.

Now is the time for businesses to rethink their approach to managing receivables.[6]

Customers are likely to spend 140% more after a positive experience than customers who report negative experiences

6 ways to transform accounts receivable

Transforming accounts receivable to become more customer-centric delivers the exceptional customer experience that drives top line revenue and accelerates cash conversion. Here is how:

1. **Multi-channel invoicing.** Paper invoices used to be the only option available to customers. Today, there are options for delivering invoices electronically. The more options that a supplier offers for how customers can receive invoices, the better the odds that it will be in a format that is convenient for them, in turn, resulting in invoices getting processed and paid faster.

80%
of customers say they are more likely to do business with a company if it offers personalized services.[7]

2. **Flexible payment options.** Limited options and antiquated payment processes make it hard for customers to pay. Customers want the flexibility and convenience of paying using their desired payment method, whether that means paying from their bank account or using a credit card or a check. Customers also want a seamless process for scheduling recurring payments, paying outstanding balancing, and making short payments or multiple payments.
3. **Cash application.** No one likes having to call a supplier to figure out why it is taking so long to settle their account. By reducing manual cash application, suppliers can apply cash faster and avoid unnecessary delays in updating customer accounts. In business-to-business transactions, faster cash application also frees up credit holds that can lead to more sales.
4. **Online collaboration.** Customers are more likely to pay a bill when they are confident that the charges are correct. Online collaboration makes it easy for customers to digitally engage with suppliers to clear up any confusion about charges that can lead to payment delays. Online portals also capture remittance data at the time of payment, eliminating the need for auto-matching and re-association of payment and remittance during cash application.
5. **Collections management.** Customers forget to make a payment. An error is made on an invoice. A customer does not agree with a charge. Unexpected expenses stretch a customer's budget. Collecting past-due payments does not have to be adversarial.

6 Deloitte, The true value of customer experiences, 2018 PDF file
7 Epsilon, The power of me: The impact of personalization on marketing performance, 2017

Inline task management help businesses quickly collect the money they are owed, in a way they can feel good about.

6. **Customer self-service portal.** Customers want to know that they are in control of their money, otherwise, they are less likely to let go of it. Antiquated approaches to receivables provide customers with little control. Suppliers determined how customers are billed, how customers can pay, and when customers could get answers to their billing questions. A customer self-service portal levels the playing field. Customers can access the current and historical information they need, whenever they need it, to feel comfortable making a payment. Customers also can effortlessly manage their billing and payment preferences.

In short, customers are happy to pay businesses that offer a collaborative customer experience.

Transforming accounts receivable to focus on customers will drive business growth and financial outcomes.

Delivering positive customer experiences can reduce your cost to serve customers by up to 33 percent [8]

Better customer experience, better cashflow

Accounts receivable software eliminates the friction in the order to cash lifecycle that negatively impacts the customer experience and contributes to slower customer payments.

- **Manual tasks.** Most businesses treat receivables as a series of tasks (e.g. invoicing, past-due reminders, follow-up calls, etc.), each of which must be completed before moving on to the next one.

  Taking a task-based approach to managing receivables provides order, but it does little to eliminate the manual tasks that cause customer-facing errors and slow cashflow down. Accounts receivables software automates the repetitive tasks that can negatively impact customers through errors, processing delays, and slow responses to inquiries. Moreover, transforming accounts receivable frees staff to focus more of their attention on building customer relationships and identifying cross-selling opportunities.

- **Errors.** Manually creating invoices, calculating totals, sales tax, and shipping charges, and entering receivables data increases the chances of billing errors, incorrect or misrouted deliveries and other issues. Upset customers are more likely to delay payments, demand pricing concessions for the time and trouble, and take their future business elsewhere.

- **Remote work.** More customers are working remotely and it is uncertain when they will return to the office. Electronic receivables tools help them with the operational struggles they are facing. Accounts receivable departments also are working remotely. It is difficult to adapt paper-based processes such as printing invoices, processing checks, or receiving cash on delivery (COD) to remote working environments.

- **Declining check usage.** From printing and collating to stuffing and mailing, it takes a lot of time for customers to pay suppliers with a paper check. That is a big reason that checks rank eighth in satisfaction compared to other types of business-to-business payment methods, ahead of only cryptocurrency, according to a recent survey of accounts payable leaders conducted for the PYMNTS Payables Friction Playbook. Online portals enable buyers to execute electronic payments within seconds, and with minimal administrative effort. Unlike paper checks, electronic payments are fully traceable and can be reconciled in real-time.

8 Deloitte, The true value of customer experiences, 2018 PDF file

- **Paying by credit card.** Customers are paying more of their bills using cards. Making payments with a card is faster, more convenient, and less risky than checks payments and offers customers opportunities to earn cash-back incentives based on their spend. Card payments also are traceable and cannot be delayed in the mail like checks can.
- **Standardized processes.** From sticky notes to spreadsheet entries, businesses use lots of approaches to keep track of all their interactions with customers to ensure that collections stay on track and disputes can be easily settled. Automated accounts receivable solutions automatically make note of any credit terms, payment deadlines or charges for late payments that customers agree to. What is more, standardizing processes through digital workflows, combined with maintaining a complete view of customers, ensures a seamless customer relationship, even when accounts payable staff rotate responsibilities.

By eliminating friction in the accounts-receivable lifecycle, and pulling customers online and away from paper processes, automation enhances the customer experience and unlocks funds that otherwise would be trapped in manual processes.

Not all approaches to accounts receivable automation are designed with this goal in mind. Many or most solutions are focused simply on improving a supplier's back-office processes. It is imperative that suppliers look for automated solutions built with tools for enhancing the customer experience.

Start your comeback

Cashflow is essential to the survival of businesses large and small. Delivering a better customer experience – and empowering customers with digital invoicing and payment options, on-demand help, and more satisfying interactions – helps suppliers unlock cashflow at key points within the order-to-cash process. Drawing customers online and away from paper processes through a customer-centric approach to accounts receivable makes this possible. A customer-centric approach can provide a better experience for customers while generating the cashflow that suppliers need to navigate tough times and position themselves for the recovery. Suppliers that settle for old ways of managing receivables, or for technology that only simplifies back-office tasks, put their business and customer relationships at risk.

About Versapay

Versapay is focused on transforming the way companies do business together by offering Customer-Centric AR Automation and Order-to-Cash solutions for mid-market and enterprise businesses. We help our clients to offer a superior customer experience, enabling CFOs to accelerate cash conversion, collaborate online, and eliminate paper, checks and manual business processes. Based in Toronto with five offices across the US, Versapay is owned by Great Hill Partners, a Boston-based technology investment firm.

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About the Institute of Finance & Management

Accounting and finance professions have each undergone nothing short of a complete transformation since the Institute of Finance and Management (IOFM) was founded in 1982 and since then our mission has been, and continues to be, to align the resources, events, certifications, and networking opportunities we offer with what companies need from the accounting and finance functions to deliver market leadership. IOFM empowers accounting and finance professionals to maximize the strategic value they offer their employers.

Our enduring commitment to serving the accounting and finance professions is unmatched. IOFM has certified over 25,000 accounting and finance professionals and serves several thousand conference and webinar attendees each year.

IOFM is proud to be recognized as the leading organization in 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 finance and administration (F&A) teams.

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