Post it once, post it right: Gaining efficiencies with A/R automation

Many businesses today continue to use manual, paper-based accounts receivable (A/R) processes, often leading to lengthy Days Sales Outstanding (DSO), soaring overhead, higher past due accounts, and poor sales analytics. As a result, working capital is not optimized and liquidity can be constrained. There's good news, however: By replacing traditional processing with automated A/R management solutions, an organization can address these challenges and create lasting value for the business.

Forces driving A/R automation

The movement by businesses to electronic payables solutions is being driven by three important forces:

- Costs and inefficiencies associated with manual processing
- Trends in the consumer marketplace
- Accounts payable (A/P) automation

Costs and inefficiencies associated with manual processing

Manual, paper, and labor-intensive methods for order-to-cash processing are still being used by many companies, leading to high costs and inefficiencies. According to corporations surveyed by Novantas[1], up to 25% of revenue from potential sales can be lost due to poor billing and accounts receivable practices.

Manual processing and consolidation systems also contribute to error-prone billing, poor transparency, and inadequate analytics. In addition, outmoded methods make it difficult to deal with increasingly complex regulatory and legal requirements, including IRS Know Your Customer requirements, Sarbannes Oxley, anti-money laundering regulations, and the Uniform Commercial Code.[2] Unsurprisingly, more and more businesses are seeking alternative ways to capture and manage data and replace paper orders, invoices, and payments.

Key Takeaways

Trends in electronic payments and the need for efficiency are driving businesses to explore A/R automation.

24/7

Automating A/R can deliver value by increasing efficiency, reducing costs, and improving sales analytics.

Pay

Each business should find the automation solution that is best for its particular circumstances and priorities.

Trends in the consumer marketplace

The impact of technology continues to play a major role in the evolution of consumer tastes and preferences. New devices and expanded access to data are giving consumers unprecedented control over their decision-making. For example, in its 2017 U.S. Consumer Payments Study, global payments provider TSYS® reported that mobile commerce is rapidly overtaking desktops and laptops. Consumers' use of banking apps has grown from 46% in 2015 to 63% in 2017,[3] and paying by digital wallet from a smartphone is now mainstream. AI (artificial intelligence) technology can be found powering some of the latest innovations, offering huge potential for a customized user experience.

The evolution of consumer tastes and preferences is also driving how businesses expect to be able to pay: They want the same 24/7, on-demand access to bills and flexible ways to pay.

A/P automation

Automation trends in accounts payable (A/P) are also impacting A/R. The A/P paper-to-electronic progression continues at a rapid pace as payment alternatives expand and enabling technologies emerge. By making payment processing faster and less error prone, automating A/P unlocks a number of advantages, including access to attractive discount arrangements and strengthened vendor relationships. In addition, technology is emerging that can help companies both offer and receive dynamic discounting in order to optimize both A/P and A/R.

U.S. B2B payment activity is projected to grow at a rapid 5.8% annual growth rate through 2020 according to Deloitte,[4] and the soaring volume is driving many organizations to seek electronic payment solutions to manage A/P processing. In fact, nearly 80% of organizations are in the process of transitioning their B2B payments from paper checks to electronic payments (Source: 2015 AFP Payments Cost Benchmarking Survey). Buyers are demanding multiple ways to pay, placing A/R departments under increasing pressure to accommodate electronic payments.

Typically, electronic payments, such as emailed card payments are more challenging and time-consuming for A/R to process. In order for A/R departments to keep up with A/P automation, most A/R teams have to hire additional staff to account for added processing time (or risk an increase in DSO)

Gains from automating A/R

PayStream Advisors found that most organizations automate their A/R processes in order to minimize processing costs, reduce DSO, and increase efficiency and productivity. That said, there are several other reasons cited for the movement to electronic receivables solutions.

Factors Driving Focus on A/R Automation

Factor	% Reporting
Reduce overall processing costs	64%
Speed up payment cycles (DSO)	57%
Better efficiency/productivity	57%
Remove paper from A/R department	43%
Better cash management	29%
Strengthen customer relationships	21%
Increase payment options	21%
Improve ability to budget and forecast	14%
Lack of data/internal inconsistencies in manual process	7%

Source: PayStream Advisors, Building Strategic Accounts Receivable, Q1 2017.

A/R automation opportunities

The order-to-cash (O2C) process encompasses the methods used to get paid from a customer order.
The O2C process is composed of five steps, each of which is essential to smooth operations:

Order Intake → Order Fulfillment → Invoicing → Payment Collections → Cash Application

The O2C Process

Automating A/R functions offers a number of potential benefits to businesses, particularly in the Billing, Payment Collection, and Cash Application steps. These are the most costly and labor-intensive elements in the O2C process, and most ERP don't directly manage them.

Function | **Opportunities and Benefits**

Invoicing/Billing

Electronic billing systems can reduce delivery time and allow customers to download their invoices directly into their own accounting system.

Exception reports help to flag account anomalies (e.g., sales exceeding credit limits, discount rates above company policy).

Customer portals can reduce manual hours dealing with cash applications, disputes, collections, etc.

Payment Collection

Pay

Accommodating electronic payment options such as cards and ACH can streamline processing and reconciliation, reduce DSO, and increase customer satisfaction.

User-friendly payment tools specifically designed for B2B transactions can make it easy to pay bills, thus speeding payments and reducing the burden on customer service.

Cash Application

Artificial intelligence considers all characters in a series, deciphering the information contextually to make the match between the incoming payment and an open receivable — even in the case of imperfect data — thus increasing match rates.

Auto-correlation eliminates the need to access and manually match remittance details from multiple sources for ACH or virtual payments and proceeds with the sequence of auto-matching.

Payment data efficiently maps across customers, sites, and ERPs, without the need for static, inflexible hierarchies.

Remittance, invoice, and file data are used in combination to achieve auto-match and accurate posting of payments, regardless of variability in remittance advice.

Range of A/R automation types

A/R processing ranges from primarily if not exclusively manual and paper based (Crawl) to a mix of manual and electronic (Walk) to a majority of automated functions (Run).

Common Characteristics of A/R Automation Types

	Crawl	Walk	Run
Invoicing	Primarily paper based Single print location Clients steered to payments by check	Paper and email Manual intervention for resends/reminders Clients steered to payments by check	Majority electronic invoicing EDI transmission for some clients Clients steered to electronic payments
Payments	Payments received in-house and deposited at branch Remittances received via email/mail	Primarily check payments received with modest push to electronic payments Scanner or lock box for check deposits	Payment choices include check and electronic with online option Flexible payment methods, including card electronic payments
Cash Application	100% manual application of payments to ERP Remittances and payments are manually matched, printed, and posted	Auto-post rate - 50% Some payments applied on account, some at invoice level Remittances and payments are manually matched, printed, and posted	Auto-post rate -100% Exceptions are the only manually applied ERP payments Payments applied at invoice level Automated matching of remittances and payments

It's important to remember that A/R automation is not an all-or-nothing proposition: There are significant gains that can be captured when moving from a process based entirely on paper and labor to one that incorporates automated elements.

Finding the right balance

Deciding on enhancements to your A/R functions begins with an evaluation of your current situation and identification of your most critical needs and pain points. It's important to assess your performance relative to peers and to compare your processes with best practices.

Examining the A/R Process with a Gap Analysis

Invoicing	Payment Collection	Cash Application
How do you get invoices to your customers?	What is your current payment mix (e.g., ACH, check, wire, card, other)?	How do you reconcile your receivables?
How many invoices are sent each year?	How is the current process of receiving payments and remittances working?	How often does this occur?
Through what channels (e.g., customer sites, paper, email) are invoices sent?	How often do exceptions to the process occur and how are these handled?	What parts of this process are automated vs. manual?
How often are adjustments to invoices required?	Are customers paying within terms?	What happens when payments do not reconcile? How often does this occur?
What manual effort or third-party service is required?	How are past due collections handled?	
What is your average cost per invoice?		
What is your current invoice mix (consumers, businesses)?		

After completing your gap analysis, you can identify your biggest opportunities, the actions needed to close gaps, and steps you can take to encourage customers to adapt to new processes.

You may decide to automate the entire A/R function or a portion of it following your analysis. The important thing is the find the balance between automation and traditional processing that is right for your organization and to incorporate your decisions into your strategic plan for A/R.

Setting goals

Once you have decided on your A/R automation strategy, it's essential to define key performance metrics — using industry averages as benchmarks where appropriate — and then set goals and performance measurement schedules. While the metrics and standards chosen will depend on your priorities, some examples include:

Performance Category	Metrics
DSO/payment timeliness	DSO A/R 90 days past due Average days delinquent # of items paid on time Discounts captured by customers
Efficiency	% of invoices processed electronically Cycle time Cost/transaction Annual cash remittance per FTE Average time to post cash Cash application cost per transaction
Accuracy	Backlog of open items Orders returned/reason Duplicate/erroneous billing Disputed invoices

Taking the next step

A/R automation can play an important role in optimizing your working capital by improving operating efficiency, enhancing liquidity, lowering costs, and strengthening customer relationships. For more information and assistance in conducting an A/R needs analysis, contact your Payments Advisor, **visit Key.com/payments, or call 1-800-821-2829.**

1. Source: www.remotedepositcapture.com
2. Source: www.tsys.com
3. Source: PayStream Advisors, Building Strategic Accounts Receivable, Q1 2017
4. Source: www.2deloitte.com