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Best Practices in Receivables Management

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Executive Summary

Receivables management is a challenge that all businesses must address. Some businesses have embraced solutions that replace manual processes for things such as remittance matching and expectation management, but many more are struggling with the implications of complex receivables management without robust tools to create critical efficiencies. This white paper provides an overview of how automation reduces the most common problems within receivables management. Key findings from this paper follow:

- **Receivables management has become a central area of improvement for many organizations:** As organizations scale, their financial processes become more complicated and subject to inefficiencies. Far from an exception, receivables management is often the source of numerous pain points, including data errors, interoperability challenges, and delays in sending invoices and collecting payments.

- **Many organizations are unhappy with receivables:** Less than 40% of businesses are at least somewhat pleased with the receivables solution provided through their bank's online bank offerings. Some of these businesses probably do not realize that more efficient, cost-saving solutions already exist.

- **Businesses demand improvements to their receivables process:** Roughly 57% of midsize and large businesses are either interested or very interested in automated receivables software. These companies recognize that legacy receivables management procedures are outdated, inefficient, and error-prone.

- **Some industries seek to improve receivables management through automation faster than others:** Over 60% of professional services businesses intend to automate their receivables within the next 12 months. Close behind, 39% of businesses in manufacturing intend to automate within 12 months, and an additional 22% within one to two years. Early adopters within other industry verticals will find a competitive edge through more efficient financial processes.

- **Automation doesn't require any sacrifices:** Automating receivables management yields numerous benefits—from fewer data entry errors and better reconciliation processes to improved invoicing procedures. Provided businesses secure the right automation solution, security and compliance are also enhanced.

Introduction

Digital transformation is a key industry trend that has forced organizations to review processes and determine how to automate previously manual processes. Digital processes have enabled organizations to address many critical areas of inefficiency in routine workflows, including within payments processing. Receivables management is one area organizations should target for digital upgrades for improved workflows, reduced errors, decreased days-sales-outstanding (DSO), and increased financial efficiencies. While automating yields considerable benefits, it is also imperative to integrate a solution that won't compromise security or compliance.

This report assesses hurdles within receivables management and how they can be overcome through an automated receivables solution that supports digital payments. The report also offers an assessment of demand for automated receivables broadly and by industry segment, along with suggestions for ensuring an automated solution maintains stringent security and compliance requirements.

Methodology

This report is based on a Datos Insights survey of 1,037 midsize and large organizations conducted in Q3 of 2023. Companies had revenue of over US$20 million per year and are located in the United States. The report also leverages past Datos Insights research, extensive conversations with industry experts and practitioners, and the author's extensive knowledge of the market.

Receivables Is a Key Pain Point

Businesses of all sizes experience numerous pain points managing receivables, and these problems generally accelerate as businesses grow in revenue size. The financial infrastructure of companies has always become more difficult to manage as they scale, but over the past decade, complexity has only increased. This is because the number of payments and the payment methods available in the market have also increased.

Technology has enabled improvements in many financial processes, but it has also led to poor interoperability, inconsistent data, low straight-through-processing (STP) rates, and other technical issues across numerous payment types and formats. Additionally, businesses continue to struggle with human-produced input errors and more sophisticated fraud and cybersecurity threats. Businesses should audit current receivables management for existing inefficiencies and identify manual processes and points of friction. Common receivables pain points include the following:

- **Payment types:** With advancing technology, businesses can now expect to receive payments through differing formats and on a variety of rails. As checks decline, digital payments are becoming the preferred method. Many businesses need to accept electronic payments through ACH, same-day ACH, wires, credit cards, virtual cards, and RTP payments. Accepting physical checks and various types of electronic payments can lead to interoperability challenges with data, payments application, and enterprise resource planning (ERP) integration.

- **Data reconciliation:** Reconciling payments with remittance information, especially when done manually or even when performed electronically through inoperable platforms, can lead to a high number of errors and exceptions. Beyond costly mistakes, reconciliation is a time-consuming endeavor. The time and human resources needed for reconciliation increase dramatically as businesses increase in size, with some variation based on industry verticals. In nearly all cases, employees could be conducting more pressing tasks rather than routine reconciliation.

- **Siloed data:** Many businesses have a patchwork of manual processes and legacy systems that are lumped together to perform receivables management. Often, this includes one or more legacy software systems, numerous electronic and physical spreadsheets, and various reports from different parts of an organization. The outcome is siloed or missing data that has an adverse effect on sending invoices, receiving payments, reconciliation, handling disputes or customer requests, and other functions.

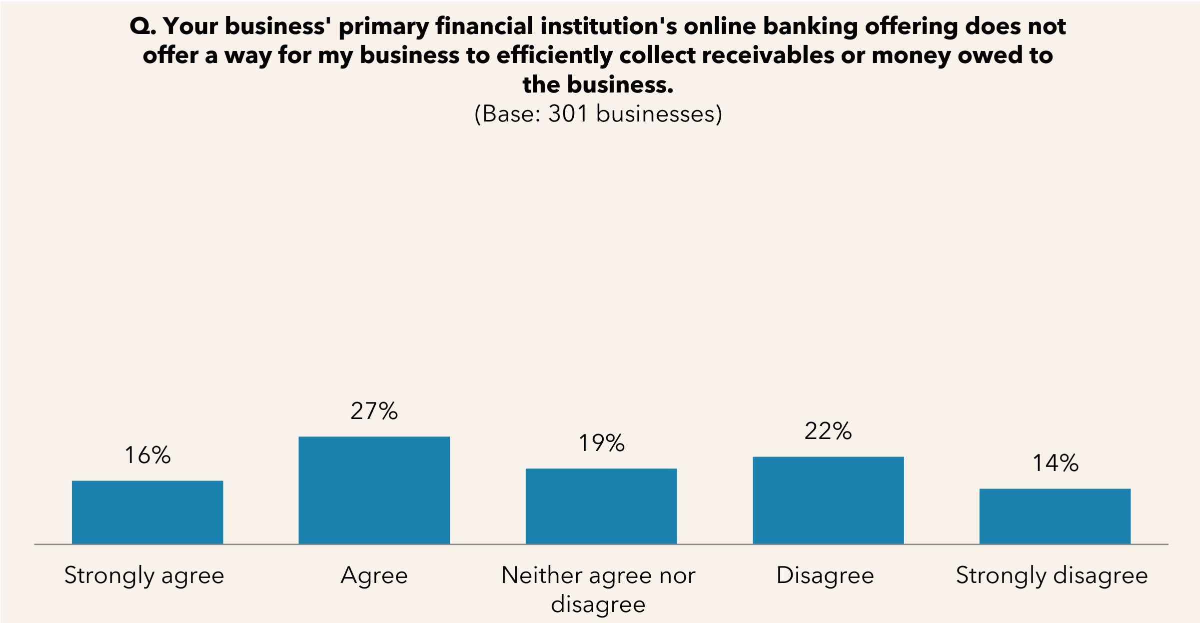
- **Increased DSO:** One of the key performance indicators of a receivables manager is reducing the DSO. This is critical to a business's financial health and a key component of effective cash flow management. Businesses that are manually applying payments can add significant time to their DSO metrics.

- **Slow response to customer inquiries:** In tandem with siloed data, data that is difficult to find or access can lead to delays in responding to customer inquiries and impact future sales and transactions. Being able to quickly identify payment information, reasons for payment discrepancies, and receipt of payment and data can strengthen business partnerships and reduce the time burden on receivables staff.

- **Data entry errors:** Underlying the other pain points is the high number of data entry errors caused by manual input. High-quality receivables management employees can make mistakes when inputting data manually, even when the data is clearcut and only going from one source to another. The problem worsens as more complicated data sets require entry into higher numbers of platforms.

With these pain points in mind, it is easy to understand why many businesses consider their current receivables management processes inefficient. Many businesses are unsatisfied with the receivables tools provided by their financial institutions (Figure 1).

Figure 1: Receivables Is a Pain Point for Many Businesses



Source: Datos Insights survey of 1,037 midsize and large organizations, Q3 2023

Many businesses consider their current receivables processes inefficient. When asked if their primary financial institution's online banking platform does not offer an efficient method to collect receivables, only 36% disagreed. Meanwhile, 43% of businesses do not think their financial institution's online banking platform offers an efficient ability to collect receivables, and 19% neither agree nor disagree, which often suggests the business considers the current offering mediocre. It is important for these businesses to seek out a solution that can better meet their needs. Businesses that are not seeking and investing in a robust receivables solution can quickly find themselves at a competitive disadvantage.

Advantages of Automation

Automation has numerous benefits for receivables management for businesses of all sizes. The benefits of automation become increasingly transparent as organizations scale and have more incoming payments from different sources in varying formats.

- **Streamlined payments collection:** Automation brings efficiency to an increasingly complicated ecosystem of payment types by helping to eliminate physical checks and offering a single point for varied forms of electronic payment.
- **Collect payments faster:** Waiting for physical checks, lost or delayed invoices, and reconciliation between payment types produce inefficient delays in collecting receivables. Automation speeds up invoicing processes, cuts reconciliation time, and helps eliminate unnecessary delays in the receivables process. This helps to dramatically cut DSO and improve cash flow management.
- **Efficient exceptions processing:** Receivables automation solutions have robust machine learning and artificial intelligence capabilities that continue to grow in efficiency over time. Any exceptions should have a clear workflow to reconcile issues, and the platform will learn how to deal with similar exceptions in the future without human intervention. Many companies see STP rates reach 98% to 99%.
- **Reduce costs:** The time employees spend on manual entry, resolving errors, and finding missing data is inefficient and ultimately costs money. The time spent on reconciliation, waiting for physical checks, and delays in sending invoices and receiving payments also costs businesses money and makes cash management more challenging. Automation reduces employee time spent on less important tasks, saves money, improves cash flow, and allows the receivables team to focus on more strategic tasks.
- **Fewer errors:** Reducing manual entry is critical for improving efficiency and reducing human-caused errors. Even working between several digital solutions can result in input errors or missing data. Automation provides a single point for data acquisition and storage, resulting in fewer errors and cleaner, more efficient data.
- **Standardized data and reporting:** Automation gathers all data sources and reports into a single source, such as payment histories and account information. Consolidating and standardizing data reduces errors, produces efficiencies across teams, and can make

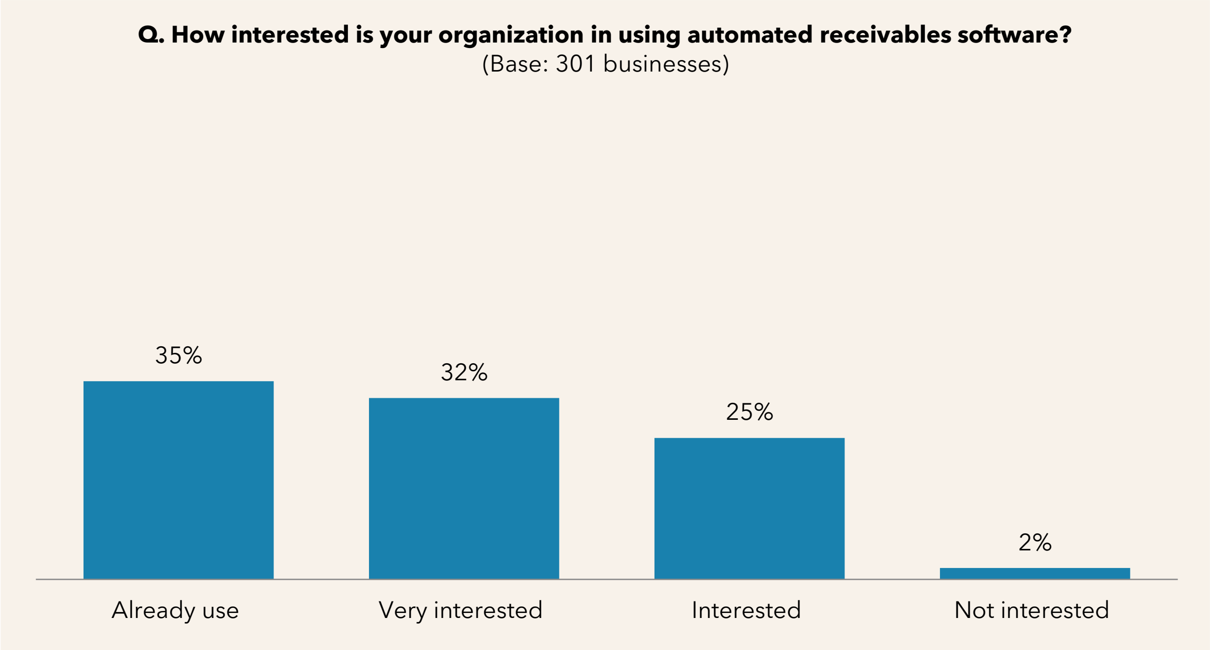
data more accessible. A single data source also makes integration with ERP systems easier, providing broader efficiencies within an organization.

- **Improved customer experience:** Just as businesses want improved receivables, customers want better payables. When customers must spend time calling for a missing invoice or get confirmation of payment, the outcome is unhappy customers and a potential loss of business. This also impacts the satisfaction of the accounts receivable (AR) staff within a business. Automation enables a streamlined experience for customers and employees that strengthens ongoing partnerships.

Considering the many advantages garnered through automating receivables management, it comes as little surprise that many businesses are interested in adopting automated receivables software and will seek a solution outside of their banks to do so.

Thirty-five percent of midsize and large organizations are currently using automated receivables software (Figure 2), and that number is growing every year.

Figure 2: Adoption Interest Among Midsize and Large Organizations



Source: Datos Insights survey of 1,037 midsize and large organizations, Q3 2023

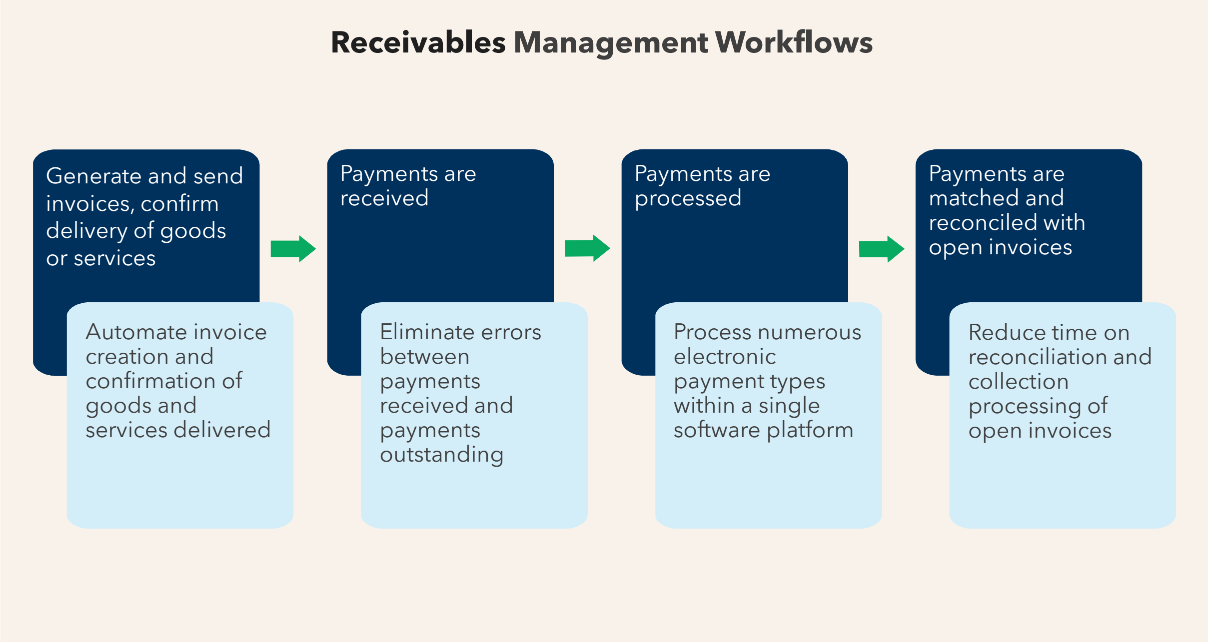
For the remaining companies not currently using automated receivables software, 57% are either very interested or interested. In comparison, only 2% are not interested. Such high demand would suggest that most organizations have at least some understanding of the benefits of automated receivables management and are likely to consider partnering with vendors that offer automation in the near- or mid-term.

Workflow

All the benefits of automated receivables management come down to better workflows for employees. Potential vendor partners should illustrate how automation situates within each step or process of receivables management, producing better efficiencies and minimizing costly errors between each step in the life cycle of a receivable—from generating an invoice through reconciliation.

Figure 3 provides an example of how typical receivables management workflows benefit from automation.

Figure 3: Receivables Management Workflows and Benefits of Automation



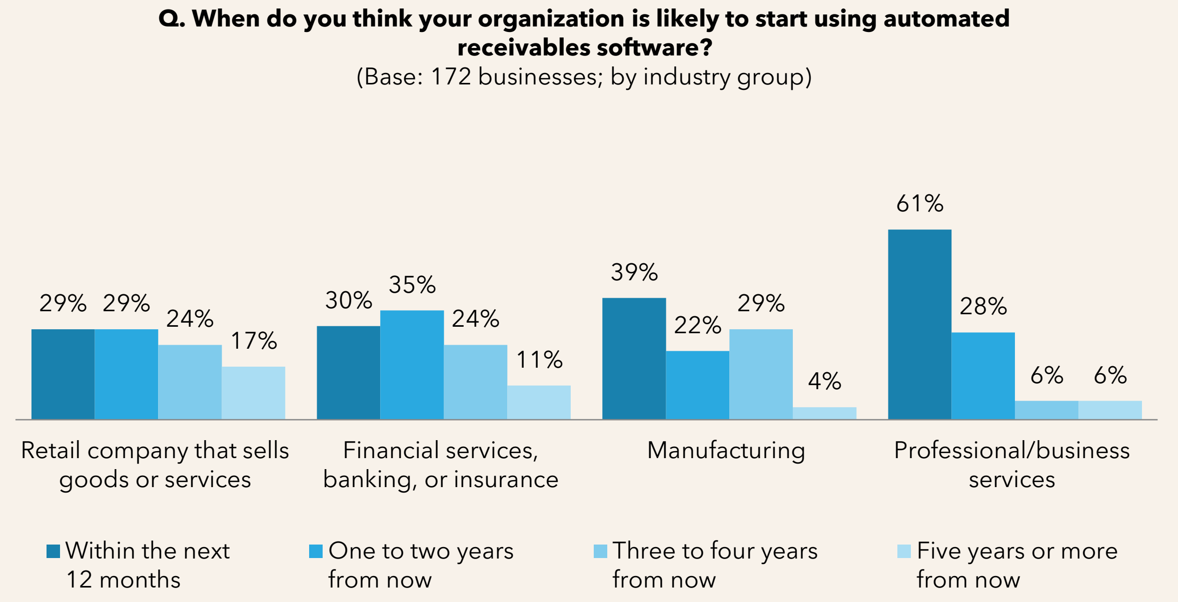
Source: Datos Insights

While the above illustration does not account for every benefit of automation within the workflow of receivables management, nor does it include every possible step in the process since it omits items such as fraud detection or further collections processes, it does point to the fact that automation benefits each process in the life cycle of a receivable. Some of these benefits may include enabling remote work for employees, better cash management, and overall cost savings for an organization.

Some Industry Groups Are Ahead

Even though all businesses will benefit from automated receivables, especially as a company grows and its financial processes become more complicated, some industry verticals are approaching improvements to receivables management differently than others. Businesses within professional services, followed by manufacturing, have the highest demand for immediate improvements to their receivables management (Figure 4).

Figure 4: Adoption/Interest by Industry Group



Source: Datos Insights survey of 1,037 midsize and large organizations, Q3 2023

The industries and businesses within those industries that are earlier adopters of automated receivables solutions will have an advantage over competitors that are slower to adopt. Providing additional benefit, businesses in industry verticals that are slower to adopt receivables automation can create a significant advantage over industry peers by considering earlier adoption. For example, a few of the benefits of automation mentioned include improved customer satisfaction, increased internal satisfaction of AR staff, and improved working capital. These impacts allow a business to strengthen partnerships, attract and retain top talent in the AR department, and improve the business's cash flow position.

Security

When implementing an integrated receivables solution, automation is not the only consideration. Security, compliance, and privacy are also important concerns. Businesses need a trusted partner that excels in providing customers a secure and compliant framework for transactions to avoid fraud and cybersecurity threats and maintain legal compliance.

Security and compliance in automated receivables management require several key considerations:

- **User authentication:** Accounts should have unique usernames and passwords that must be entered with each login, in addition to segregation of account-based access rules. Passwords should have minimum complexity standards.
- **Fraud detection:** Transaction data should run through a fraud detection system with numerous rules along with advanced insight monitoring.
- **Encryption:** Sensitive data such as account passwords and credit card details should be stored only in an encrypted format. Communication should pass through HTTPS encryption.
- **Auditing:** Third-party auditing of compliance through certifications should include AICPA SOC 1 Type II for Service Organizations for user entities' financial statements, Payment Card Industry Data Security Standard (PCI DSS) information security standards, NACHA Rules, and AICPA SOC 2 TYPE II for service organizations.
- **Security compliance:** Maintain security compliance through various frameworks such as the EU-US and Swiss-US Privacy Shield for data privacy and security and NFPA1600 for continuity and disaster recovery risk compliance.
- **Regulatory standards:** Align with various legal and regulatory standards, such as the General Data Protection Regulation (GDPR) in the European Union, the California Consumer Privacy Act, and relevant anti-money laundering laws.

Further security measures should also include data loss prevention on email monitoring, static and dynamic analysis review before code release, advanced endpoint protection with URL filtering, and multi-factor authentication on critical systems and remote connectivity. Secure third-party data centers and internal measures for the vendor, such as employee screening, are also crucial for optimizing customer security and maintaining customer privacy. Ensuring a receivables solution can meet all of these requirements is an important consideration when selecting a partner. In sum, the benefits of automation cannot come at the expense of compromised security or compliance. A solution should actually enhance security.

Conclusion

- Businesses should audit current receivables management for existing inefficiencies with several key considerations in mind, including payments complexity, errors, time spent on reconciliation, DSO, STP, and cost/time inefficiencies.
- Along with other efforts to modernize financial processes, businesses should consider automation a key priority to save time and money, increase efficiency, create improved workflows, and improve customer experiences.
- Businesses that are not investing in payments tools such as an automated receivables solution can find themselves at a competitive disadvantage. In a competitive economy with diminishing margins, businesses need to focus on the benefits of automation with an increased focus on working capital and cash flow management.
- Demand and appetite for adopting automated receivables software varies within and between industry verticals. Businesses within professional services and, to a lesser degree, manufacturing are planning to automate receivables within the near term. Businesses in these industries that are not adopting a receivables solution are falling behind their competitors. Businesses in other industry verticals can benefit as early adopters.
- Automating the receivables process also has a direct impact on customer satisfaction as well as the satisfaction of internal accounts receivables staff, who will spend less time trying to solve customer inquiries as well as manually applying payments and solving exceptions.
- Picking the right vendor for automated receivables is critical. Businesses should expect to achieve all the benefits of automation without sacrificing areas of high prioritization, especially security and compliance. Businesses should ensure vendors openly disclose how they comply with industry best practices in maintaining security, ensuring data privacy, and how they align with regulatory frameworks.

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