



EBOOK

The late payment culture: AR secrets revealed

Tips for getting invoices paid faster



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Everybody loves cake, right?

Collecting payments for delivered goods or rendered service can take persistence and perseverance. No company knows that better than MusicBrainz, a small non-profit organization based in California.

In 2010, MusicBrainz was hired by Amazon to work on a \$20,000 live data feed project. The project was completed successfully, but after dozens of back-and-forth emails over three years, MusicBrainz still had yet to receive a single penny from Amazon.

After they had exhausted all of their collection options, MusicBrainz did something a little out of the ordinary to get Amazon's attention. They sent their office a \$30 cake with a special message written in frosting: "Dear Amazon: Congratulations on 3rd Anniversary of invoice #144." Once the press caught wind of

MusicBrainz' stunt, Amazon promptly mailed a check for the full amount of invoice #144, three years after its issuance.

While humorous in hindsight, the MusicBrainz—Amazon saga reveals a larger, more troubling issue that plagues B2B organizations. A recent study conducted by MasterCard found that 74 percent of business owners and employees think late payments are a fact of business life and will always happen, and 57 percent of those surveyed acknowledged that they had actively delayed payments to their suppliers in the last 12 months.

Another report released by Euler Hermes corroborates the late payment trend: their Payment Behavior Index for 2015 revealed a 6.4-point decrease in on-time B2B payment behavior in the U.S. from 67.2 to 60.8 (where 50 indicates average payment behavior).

Perhaps most concerning is the directly proportional relationship between payment behavior and GDP.

Given the strong correlation, it stands to reason that late payments, while potentially beneficial to buyers in the short term, have a negative impact on the broader economy.

The impetus behind this “Late Payment Culture” can be attributed to cash flow.

In the same way accounts receivable (AR) teams strive to lower Days Sales Outstanding (DSO), their accounts payable (AP) counterparts seek to increase their Days Payable Outstanding (DPO) in an effort to maximize working capital.

In a perfect world, suppliers and buyers would strike the perfect trading terms, allowing both parties to reach the best possible DSO and DPO. Unfortunately, that usually isn't the case, as buyers typically have most of the leverage—they've already received the goods or services, more often than not, the financial penalties incurred from making late payments fail to outweigh the time value of money-on-hand.

Proven strategies for getting your invoices paid

So how can B2B suppliers and service providers strike a balance?

While it's impossible to control when customers are going to pay, there are strategies you can implement that increase the likelihood of on-time payments. These six tips could help you tip the scales in your favor:

Get invoices to customers quicker

Invoice delivery speed is a key factor when it comes to late payments. If your invoices aren't being delivered in a timely manner, the odds are high that your customers will behave similarly when it comes to paying. However, invoice delivery is something you can directly control, and the best way to ensure timely delivery is through automation.

Automating print delivery and mailing invoices from multiple locations throughout the country ensures speedy and error-free delivery. Furthermore, presenting invoices online, either via email or through an online presentment and payment portal, ensures customers receive their invoices as soon as they're generated.

Promote automatic payments

There are other ways to meet your customers' needs, for example, in the world of B2C, many consumers who have monthly subscription payments tend to prefer automatic payments. Why would an organization want to behave differently?

Setting your customers up for automatic online payments not only eliminates the potential for delinquent payments, it might

also help you sell more of your product or service. A study done by Duke University of 16 years of billing records from one utility company found that residential customers using automatic bill payments consumed 4-6 percent more power than those who did not. Duke professors attributed the phenomena to reduced salience: being less aware of the costs caused an increase in demand.

Accept credit payments

While paper checks make up 51 percent of the overall form of payment in the world B2B, they are slowly declining year over year as businesses move toward electronic payment options. Commercial cards and one-time-use, virtual credit cards are growing rapidly among AP departments, and the reason is threefold: purchasing cards afford AP teams robust management controls, streamlined reconciliation and the potential to earn rewards with every purchase. AP teams have every reason to use their card for purchases, and AR

teams want to accommodate them to facilitate quicker payments.

Suppliers can even incentivize buyers by accepting card payments only if an invoice is paid within the first week. Buyers will be happy to take advantage of the rewards they'll receive by using their credit card, and suppliers get to collect payments well before their due date. Furthermore, this would also appease third party payable providers who want widespread acceptance of credit cards in payment and can offer Level 2-3 interchange rates in return for further adoption.

Offer early payment discounts to late buyers

Discounts to the usual late payers might incentivize those customers to pay on time, especially considering today's low-interest rates. Taking advantage of a 1-2 percent invoice discount will outweigh the interest earned if buyers were to keep that money in a money market account or other interest-

bearing assets. The benefits are mutual—in a study done by the Credit Research Foundation, 68 percent of surveyed suppliers who offered these incentives noted an improvement in DSO due to early pay discount programs.

Automate payment reminder notifications

The manual work and follow-up calls that go into collecting long overdue payments are hard enough. So special attention should be paid to those customers who are not yet overdue on their payments to avoid a backlog. Leveraging a system that

automatically emails payment reminders to customers decreases the likelihood that they'll miss a payment, meaning you can dedicate more of your time to those hard-to-reach accounts.

Mitigate losses with automated payment controls

Finally, what's worse than a late payment? A late payment made with a credit card. If you accept card payments from your customers, you'll want to make sure you can prevent them from paying with a card if they're overdue on a payment to avoid

being hit with fees. If you know you have certain customers with a history of late payments, you'll want to implement a system that allows you to prohibit those accounts from paying with a card.

Conclusion

When it comes to the financial health of your organization, it's crucial to be aware of the variables that may be contributing to your DSO, and even more so to a customer culture that allows late payments to continue.

So get ahead of the curve, and take a look at your payments process. Maybe there's a little more you can be doing to both

strengthen your relationship with your customers while also ensuring that your business gets paid on time.



Learn more

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ABOUT BILLTRUST

Billtrust is a leading provider of cloud-based software and integrated payment processing solutions that simplify and automate B2B commerce. Accounts receivable is broken and relies on conventional processes that are outdated, inefficient, manual and largely paper based. Billtrust is at the forefront of the digital transformation of AR, providing mission-critical solutions that span credit decisioning and monitoring, online ordering, invoice delivery, payments and remittance capture, invoicing, cash application and collections.



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