

Transform accounts receivable for massive efficiency gains



Mid-market companies across North America are looking to accelerate growth and deliver major improvements in efficiency as the digital revolution continues. Versapay CEO *Craig O'Neill* argues that to fully realize the benefits of the digital economy, SMEs should move beyond automating existing accounts receivable (AR) processes to view digitization as a transformative exercise that offers new and better capabilities to position their business for better performance.

Small and Medium-Size Enterprises (SMEs) are the backbone of the North American economy. According to recent statistics from the US Department of Labor¹, small businesses account for 98% of all identified US exports and have created two-thirds of all new private sector employment over the past decade.

As the World Economic Forum has noted² mid-market companies urgently need to re-tool for growth in the digital era. This means, among other factors, that they should transform their accounting procedures, reduce risk and accelerate growth by adopting a

new, collaborative approach to AR. Doing so will deliver a quantum difference in terms of efficiency, productivity, ease of payments, improved cash flow, and customer experience. What's more, mid-market companies will also free up existing AR personnel to perform work that's more strategic and has greater impact, improving employee retention and offering better career prospects.

1 See: <https://ustr.gov/trade-agreements/free-trade-agreements/trans-pacific-partnership/tpp-chapter-chapter-negotiating-8>

2 See the WEF on the skills gap in the 4th industrial revolution here: <https://www.weforum.org/agenda/2020/01/reskilling-revolution-jobs-future-skills/>

Beyond digitization: AR transformation means more than automation

A recent study from Levvel Research³ and our own research with payments and fintech media outlet PYMNTS⁴ confirms that while only 10% of mid-market companies use fully digital financial management systems, the remaining 90% are currently engaged in the digitization process. The recent pandemic has led businesses to acknowledge the urgent need to digitize—as part of this process, they are undertaking a radical overhaul of invoicing and payment practices previously weighed down by inefficient manual and paper-based processes.

For example, our research with PYMNTS reveals almost one in four corporate payments in North America (24.7%) were still being made by check as of Q1 2020, climbing as high as 34% in the Real Estate sector. Aside from the time and labor involved, the average cost of manually processing an invoice was put at \$13 by *Forbes* Magazine in April 2020⁵, compared to \$2.36 for digitally processing one. *Forbes'* roundtable also revealed that error rates are dramatically higher for manual processing too, with 67% of mid-market companies

“By creating new opportunities to work together, a transformative approach to AR makes for better customer relationships, more efficient processes, and new business potential.”

3 See Levvel Research: <https://www.levvel.io/resource-library/the-accounts-payable-automation-platform>

4 See PYMNTS: <https://www.pymnts.com/accounts-payable/2021/cfos-see-ap-ar-digitization-as-crucial-to-customer-satisfaction/>

5 *Forbes* magazine, 1 May 2020: “How AP departments can ensure business continuity”: <https://www.forbes.com/sites/forbestechcouncil/2020/05/01/how-ap-departments-can-ensure-business-continuity/?sh=70288717414e>

reporting rates as high as 3.6% for fully manual processing compared to well below 1% for digital. Statistics like these underline the need to transform back-office accounting operations, both to deliver a step-change in customer service and to improve efficiency and profitability in mid-market companies.

While digitization will allow mid-market companies to automate many of these

inefficient processes and realize significant gains in doing so, the more exciting opportunity lies in transforming AR to improve collaboration and communication with customers and suppliers. By creating new opportunities to work together and share information, a transformative approach to AR makes for better customer relationships, more efficient processes, and new business potential.

“By reducing time, labor and expense, as well as error rates, digital transformation delivers a step-change in back-office performance, and much improved customer service.”

Collaborative accounts receivable: the key to business transformation

“There’s no question that automating back-office functions in B2B payments is one of the biggest opportunities to deliver better customer service, greater efficiency and improved shareholder value over the next five years. In particular, mid-market companies working across borders have much to gain from this process.”

—John Berns, Founder and Managing Partner, Account Payment Consulting

As they transform their businesses for the digital era, leaders of mid-market companies should be thinking beyond the short-term gains offered by automation. By seeking AR digitization solutions that offer premium automation capabilities and encourage broader transformation through collaborative practices, SMEs can avoid the need for expensive retrofits in the future while simultaneously accelerating cash flow. As an analogy, the retail banking sector faces a similar challenge—instead of simply offering internet-enabled versions of their old in-branch services, banks are realizing that what’s needed to remain competitive is a full transformation to digital systems that account for their most important stakeholder: the customer. These changes

include digital-first processes and new products created by and for the digital era.

Cloud-enabled, fully-digitized AR management systems go beyond the obvious benefits of traditional automation—such as lower costs, greater efficiency and fewer mistakes—creating opportunities for collaboration and communication between AR departments and their customers and vendors. This ensures that all parties have access to the same information—invoices and supporting documentation, disputes and ongoing conversations, payment histories, and more—leading to massive gains in efficiency, accelerated cash flow, and exceptional customer experiences.



“Working with a cloud-based, fully digital AR system has the potential to reduce past-due invoices by 50%.”

For example, mid-market companies can reduce chargebacks and lower the risk of late, inaccurate or unpaid invoices by analyzing customer payment patterns on a case-by-case basis. They can also use rich data harvested from fully digital AR systems to improve their resource planning, identifying seasonal and cyclical patterns in revenue, average payment times and delinquency rates. Among the myriad other benefits, working with a cloud-based, fully digital AR system that includes functionality such as automated reminders to pay, has the potential to reduce past-due invoices by 50%.

Customers also find it easier to pay via the wider range of payment options available through digital channels, with payments being made up to 25% faster in a fully digital environment. And with access to the same information, both customers and AR teams can improve their communication and rapidly resolve any discrepancies thanks to greater transparency of invoices, payments received and other information.

Greater AR transparency builds better investor relationships

“Automation enables smoother experiences for end users. At the same time, it also offers dramatic improvements in efficiency, as well as the potential to create new, transformative business models.”

—David Daly, Scientific Community Editor, Worldline

In the hunt for growth, many mid-market companies are seeking investment from both private and public sources. For some time, studies of investor expectations⁶ have cited poor access to accounts receivable data as a major challenge in assessing SME creditworthiness. By transitioning to a fully-digital, cloud-enabled environment, mid-market companies can maximize growth and make themselves more desirable as an investment opportunity by offering current and potential investors and partners access to rich data regarding their invoicing and AR functions, giving investors confidence in where they're putting their money.

⁶ See Ernst and Young: https://www.ey.com/en_us/banking-capital-markets/how-banks-can-use-data-and-technology-to-help-sme-businesses-grow



CFOs all-in on collaborative AR

Recent IMF projections⁷ predict economic growth for the US and Canada at an average of between five and six percent over the next two to three years, among the highest growth rates seen since World War II. Taking full advantage of this growth potential implies transforming back-office functions such as invoicing and AR—and having them work more closely with front-office endeavors—so that these functions keep pace with the expectations of customers, employees, partners and investors.

Our survey of 400 North American CFOs reveals that more than half (57.3%) see digitization as a transformative opportunity to do things differently—and better. Meanwhile, almost three in four CFOs (70%) said wholesale transformation of their back-office

functions to a digital environment would improve the lifetime value of their customer relationships.

An enterprise-wide approach to the fully digital automation of AR represents the best opportunity for mid-market companies to re-tool their business for the digital era. Full-scale automation offers not just an opportunity to reduce costs and improve efficiency while improving the customer experience: it also promises enhanced communication, better collaboration, and richer data to inform management strategies for accelerated cash flow and profitability.

⁷ See NASDAQ.com, 27 July 2021: <https://www.nasdaq.com/articles/imf-raises-global-growth-forecast-for-next-year-2021-07-27>

To find out how you can transform your AR department to drive efficiency and cash flow, please visit www.versapay.com

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