

Automating the Accounts Receivable Journey



Background

Automation is easy to suggest for accounts receivable, but it is challenging to make it a reality. The value is usually understood at a broad level by many. Lack of automation means manual and paper-based processes, which are subject to 1) lack of scalability, 2) more defects and errors, 3) a broken or damaged process, higher costs, and a less controlled environment.

To address these issues, the movement from a manual process to a more automated one is often referred to as moving from 'paper to electronic' (P2E). The P2E journey has become a key focus for CFOs, treasurers, and controllers. Bankers have been pushing this for years with good reason.

External factors have helped to move more companies along this P2E transition more quickly. These include work from home (due to the pandemic), rising working capital needs, escalating interest rates, and sophisticated payment fraud. Discussions and research data both show that many companies were pushed to focus on the tools most able to help them survive during recent years. This impacts AR and elevates discussions and actions around AR automation.

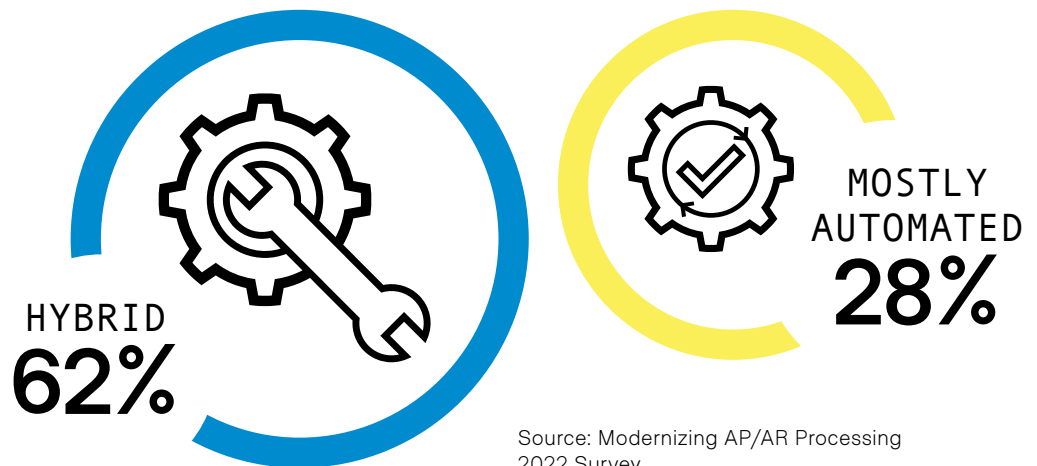


Cash is king, and operational efficiency is vital.

AR automation is crucial to optimizing working capital, operational efficiency, and controls in nearly every organization. It facilitates faster cash receipt to improve liquidity, offers a better view of Days Sales Outstanding (DSO), and provides improved transaction visibility which supports forecasting, reconciliation, and reporting. Through the use of AR automation, companies have a better view of their company's financial situation. This allows them to decrease borrowing, reduce costs, and add shareholder value.

While AR and treasury professionals are excited about the opportunity potential of automating AR, there are challenges and real concerns about how best to move forward. What should inform our thinking about the journey to AR automation?

- » **It Is Time for More AR Automation.** Bankers find the desire to automate receivables high on the list from an executive standpoint, and AR automation is high on the list and above AP automation initiatives. Importantly, most accounts receivable processes are still a hybrid mix of both manual and automated payment services.



Challenges for AR and banks making sales.

- » **IT Availability.** A major hurdle slowing down receivable automation is internal resources. IT time is pinched and over-booked, and their support is needed in some measure to support new processes and analyze needs.
- » **CIO Access.** Bankers stress that fintechs have more success and an advantage over the banks in selling technology services because they have better access to the CIO/CTO. This pressure has driven banks to form strategic relationships with fintechs to compete and service their clients.
- » **Need Is Strong Enough to Move.** More senior IT access may help when selling technology-enabled solutions, but capabilities are critical.



Over 60% of corporates are willing to shift payment providers if their current bank doesn't adequately support a fully electronic payment process.

Source: Modernizing AP/AR Processing 2022 Survey1

Companies see the need and plan to spend.

AR spend is growing as companies prepare for future disruptions and seek ways to build resilience and scalability.

- » “The global accounts receivable automation market size is anticipated to grow from USD 3.3 billion in 2022 to USD 6.5 billion by 2027, at a Compound Annual Growth Rate (CAGR) of 14.2% during the forecast period.”

Source: <https://www.marketsandmarkets.com/Market-Reports/accounts-receivable-automation-market-186013726.html>

- » Furthermore, “64% of firms are shifting away from physical invoices, and 67% are receiving more payments digitally.”

Source: <https://www.marketsandmarkets.com/Market-Reports/accounts-receivable-automation-market-186013726.html>

- » “The number of companies using cash application with artificial intelligence/machine learning is expected to double within two years.”

Source: Modernizing AR Processing 2022 Survey.

Bankers need to help make the business case.

Bankers highlight what they believe financial institutions need to do to motivate corporates to invest in payment automation. This requires presenting the net benefit of a solution. Justifying costs to include both quantitative and qualitative savings and calculating return on investment (ROI) is considered. Spell out how automation increases processing efficiencies and productivity. Show the value of a more automated process and more efficiently collected funds, including:

- » **Workflow Management.** Automation of a component of the process can help a process. However, as the entire process is examined and automated, optimization can be realized. The end-to-end view of a workflow simplifies AR reconciliation and reduces errors and defects at handoff points and those caused by manual functions, and organizes activities, clearly simplifying management responsibilities.
- » **Security and Control.** Detailing out the financial value of better security may be a challenge while making ROI calculations. However, payment security and privacy concerns must be included in the broader business case and are often well understood by executive management.
- » **Improved Visibility.** Real-time transaction data improves cash forecasting over the short and medium time horizons. This improved visibility allows the AR/collection teams to focus their activities more precisely.
- » **Enable the Machines.** In modern automated systems, companies are able to leverage artificial intelligence (AI) and machine learning (ML) to better detect patterns (e.g., forecasting payment flows) and improve efficiency (e.g., cash application).



Teasing out the Value of AR Automation.

How to help AR groups understand the opportunities around automation and how those may differ based upon company size, position, and perspectives.

- » **Be an Educational Resource.** There are a number of new service providers, and this expansion can create a confusion of 'so many choices.' This can lead to inaction or indecisiveness. An informed dialogue with companies can help organize their thinking and accelerate their movement towards more automation.
- » **Company Size Matters.** Larger corporations have an easier time justifying costs and calculating ROIs. Smaller companies sometimes wait as long as they can before making a technology investment – e.g., replacing people who leave with automation. This change is usually made in panic mode.
- » **Readiness to Change.** If it is the financial institution's initiative to convince their client to change, it takes much more work to get the buy-in compared to a client ready for change. Knowing their position can inform the banker's approach.
- » **Outsourcing.** Architecting cloud-based, best-of breed fintech solutions has become a more acceptable investment. That is not to say that 'outsourcing' isn't viewed as a negative term by some.
- » **Scalability.** The challenge of growth is multiple times more difficult with manual processes, even if we ignore the cost of growth. Scaling up gracefully and cost-efficiently resonates with many growing organizations, and where this can be shown, the time to implementation shrinks.



Conclusion

While there is general recognition of the value AR automation can bring, the path can easily become blocked in the specifics. Many companies are moving from manual or hybrid processes to more fully automating their AR functions. Others are planning to do so soon, and many will encounter the common blockers and delay their action. Bankers must work closely with their customers to better identify and remove their specific roadblocks. Banks are well-suited to help them through the business case and address resource constraints. The opportunities for impactful growth are significant for both companies and their banks.





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