SSON REPORT

AUTOMATING ACCOUNTS RECEIVABLE

Optimising Cash & Collections in Uncertain Times

SSON | THE WORLD'S LARGEST SHARED SERVICES & OUTSOURCING NETWORK

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INTRODUCTION

The COVID-19 crisis has undoubtedly shone a striking beam of light onto the efficiency and continuity of AR. A majority of companies are likely to be impacted by the loss of customers and significant reductions in debts being paid, due to customer's experiencing financial or cash flow difficulties. SSON's *COVID-19 Impact on Global Service Delivery Models Survey* in April 2020 revealed that in almost 30% of cases, the most significant business impact as a result of the COVID-19 outbreak is a decline in cash collections.

Under normal business conditions, companies primarily focus on the profit and losses – growing the top line while managing the bottom line. Routine back-office activities such as paying bills and turning receivables into cash are often taken for granted. In the current abnormal business conditions, smart companies are shifting their focus from the income statement to the balance sheet, and/or have developed a treasury plan for cash management as part of their overall business risk and continuity plans.

Lack of planning, poor enforcement or a failure to focus on the function can result in unintended consequences. In contrast, proactively optimising the AR process can drastically improve the health of a business by preventing existing capital from going to waste, and increasing liquidity.

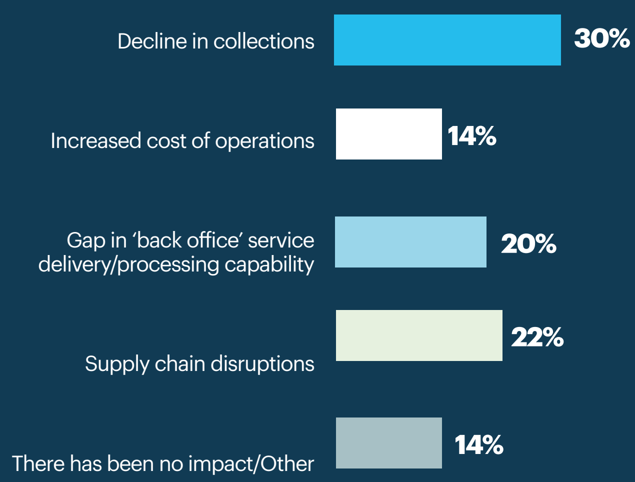
Shared Services has proved widely successful as a means of optimising the performance of Finance services (SSON's State of the Industry Survey 2020 shows us that 58% of European respondents provide finance services within their SSC), specifically within Accounts Payable (AP). It is interesting to note, therefore, that AR – as a net contributor to organisational cash – is still lagging behind AP in terms of its adoption into an SSC model (see sidebar). The nature of issuing invoices to customers and managing cash receivables, lends itself well to a more centralised and standardised approach.

In addition, integrating automated solutions drives additional value by taking repetitive tasks out of the workflow for the AR department, minimising errors and time delays to optimise cash flow and mitigate risk. Shared Services enabled by automated solutions is the optimal performance driver.

In partnership with HighRadius, this report will explore the AR process in detail, identify core challenges to operational effectiveness, and highlight how these can be overcome to achieve stellar AR control and influence.

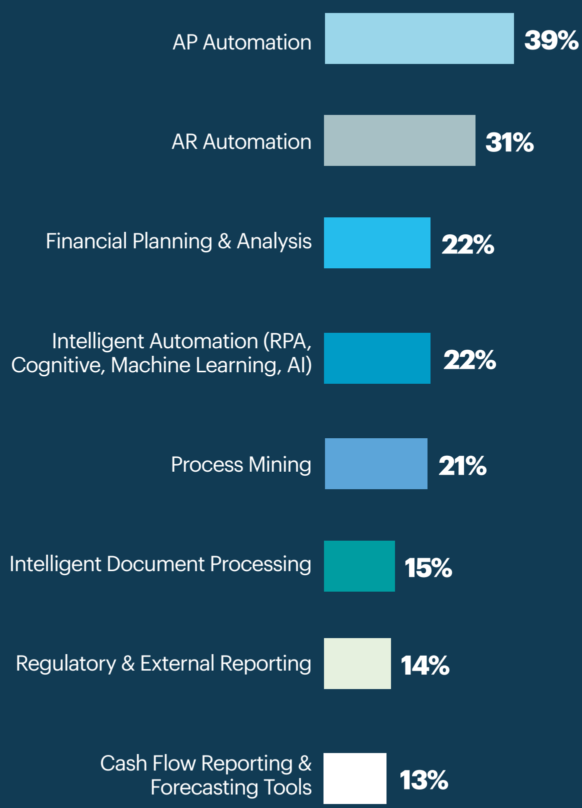
BETH HAMPTON
DIGITAL EDITOR
SHARED SERVICES AND OUTSOURCING NETWORK

WHICH OF THE FOLLOWING IS YOUR MOST SIGNIFICANT BUSINESS IMPACT AS A RESULT OF THE COVID-19 OUTBREAK?



Source: COVID-19 Impact on Global Service Delivery Models Survey, Shared Services & Outsourcing Network (data collected April 2020)

WHICH OF THE FOLLOWING FINANCE TOOLS HAVE YOU ALREADY/ARE YOU PLANNING TO INVEST IN?



Source: SSON Finance Transformation Digital Online Conference Profiling Report 2020

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THE CRITICAL ROLE OF ACCOUNTS RECEIVABLE

AR is made up of numerous elements that are integral to its performance. The systems, processes and professionals dedicated to AR ensure that payments are collected on time, every time, and without mistake.

At a high level, AR is critical because it controls cash flow. Optimising AR ensures that sales translate seamlessly into collections - considering the current climate.

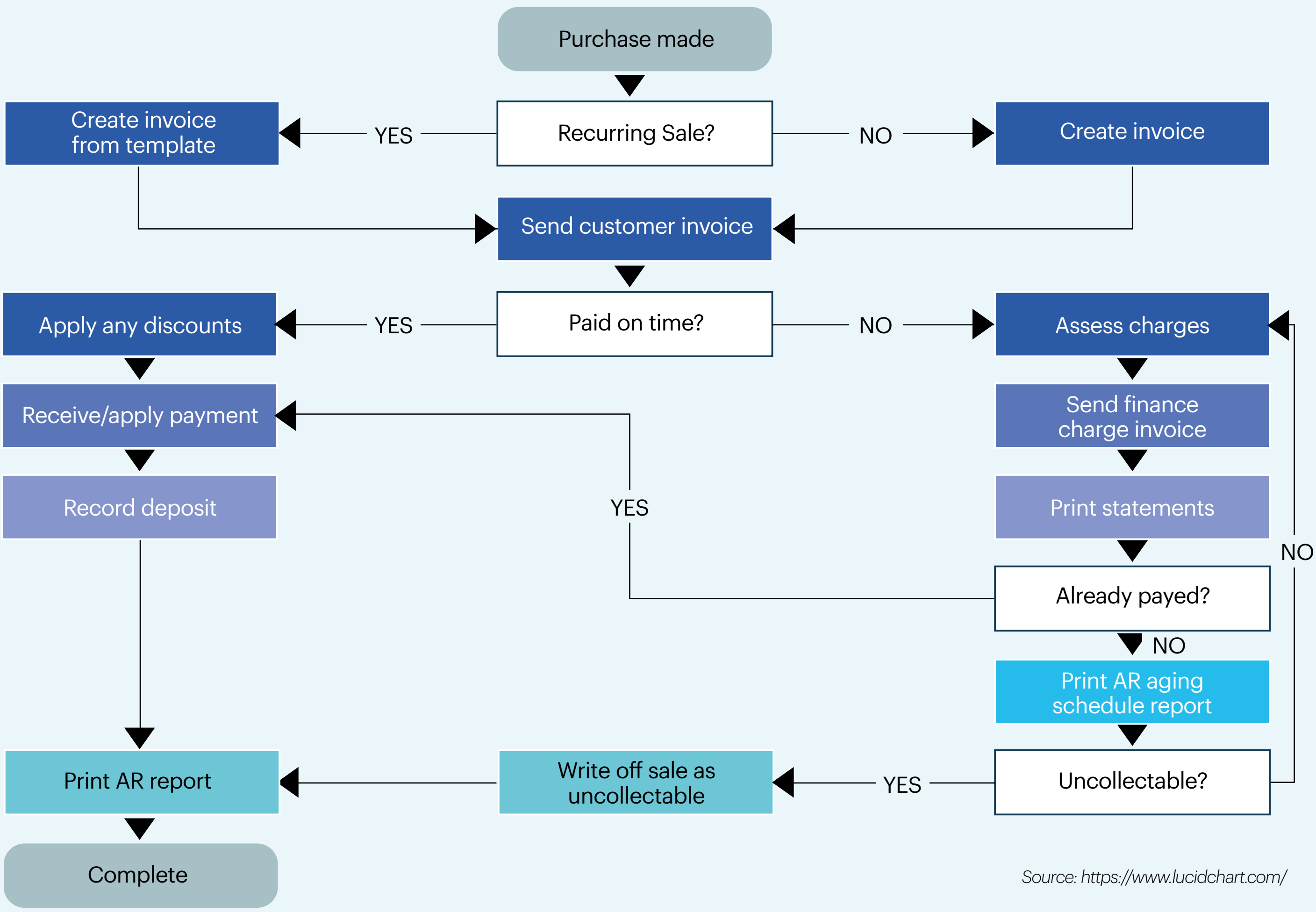
So it's all the more surprising that accounts receivable is still relegated to the "back office." Poor AR practices not only suck productivity from a business, but also produce a ripple effect that touches many aspects of an enterprise.

Direct consequences of poor AR management include:

- Missed payments: Enterprise customers forget or neglect to pay their bills, and the lack of a reliable accounts receivable process in place means the gaps in incoming revenue are overlooked.
- Unsent invoices: An accounting system allows invoices to be automated, but the process needs to be audited regularly to ensure these are sent out on time, based on your agreements/contracts.
- And of course... Lack of cash flow: What would happen if you found yourself unable to pay your overhead, meet payroll, or take advantage of a business opportunity when it presents itself? These are all critical consequences of failing to manage accounts receivable.

Any one of these missteps can cause far-reaching issues for even successful and profitable businesses, so implementing a stringent and reliable methodology is key.

THE ACCOUNTS RECEIVABLE PROCESS



Source: https://www.lucidchart.com/

5 FACTORS THAT CAN DERAIL EFFICIENT AR PRACTICES

To keep your AR processes on track, address any performance improvements you need to make in the following areas:

1. LATE PAYMENTS

The disadvantages to being paid late have serious implications for an ongoing business, and the law of diminishing returns certainly applies in the case of overdue invoices (Days Sales Outstanding (DSO)). Sales contracts stipulate payment terms and cycles, whereby invoices that extend beyond 120 days overdue are significantly less likely to be paid, subsequently leading to a loss in revenue, and in most cases costing businesses money. Adhering to agreed payment terms is critical to a business that depends on cash flow to finance its ongoing operations.

2. PRODUCTIVITY & EFFICIENCY GAPS

Due to manual and non-streamlined processes, collectors often spend too much time looking for customer information in databases, updating spreadsheets, correcting data errors, and other non-value adding activities, when they should be focusing on communicating with customers, settling disputes, and performing activities that expedite payment.

3. ERRORS IN INVOICE INFORMATION & DELIVERY

Some of the root causes of inefficient AR processes are missing documents (e.g., customer's purchase order), wrong data, incorrect address, invoices going astray/getting lost in the mail, etc. Payment terms are also often overlooked or ignored, leading to extra work and time expended in chasing them up.

4. LOW VISIBILITY ON HIGH-RISK ACCOUNTS

No matter how effective AR practices are, some customers will always pay late. Such customers need to be critically reviewed to determine whether they chronic defaulters. Data analytics is playing a valuable role in AR to identify such problem accounts.

5. BAD DATA

Most businesses do not have a formalised credit and collections process. As such, they are still working with outdated Excel spreadsheets, old Aging Reports, or information is manually entered into CRM systems. Inaccurate and outdated information is one of the biggest hurdles to being paid on time.

SHARED SERVICES ADDRESSES INCONSISTENCIES

Even with the most talented team, inherent inefficiencies within the AR process will impact cash flow negatively. A decentralised AR environment can present challenges for global enterprises as processes are spread worldwide and often carried out in different languages and in different ways. Lack of consistency makes it harder for an organisation to be able to gain visibility over cash flow and drive improved outputs.

Rather than introducing step-change incremental improvements, the tried-and-tested solution is to implement a Shared Services model. Under this model, AR is redefined as a stand-alone hub of efficient, standardised and largely automated processes, operating at a much lower cost, with improved visibility/transparency and control.

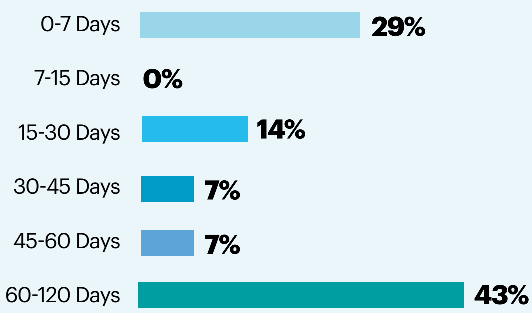
The benefits of Shared Services is that there is one way of doing things, with [costly] exceptions quickly easily identified. The model allows valuable resources to be deployed in other areas of the process – today that often translates to data analytics, or specific problem solving, i.e., providing additional value to the business by re-imagining the AR process.

THE DATA: VISUALISED

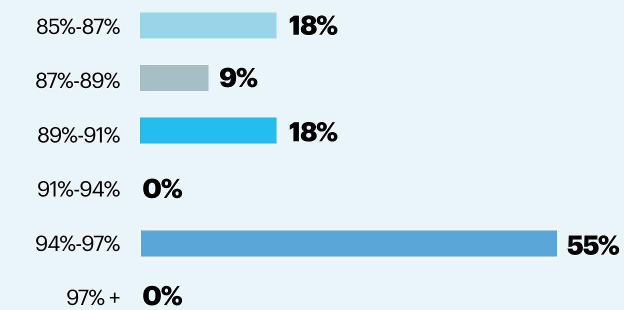
SSON's Metric Intelligence Hub™ houses country, regional and industry-specific benchmarking datasets. This global model was created using detailed technological and industry information from 122 countries and 22 industry verticals globally, and allows access to proven benchmarking data across 103 Finance & Accounting, HR, Procurement, IT and RPA metrics.

Based on global Shared Services data analysed by SSON Analytics in 2019, we see the following trends within the Order-to-Cash metrics:

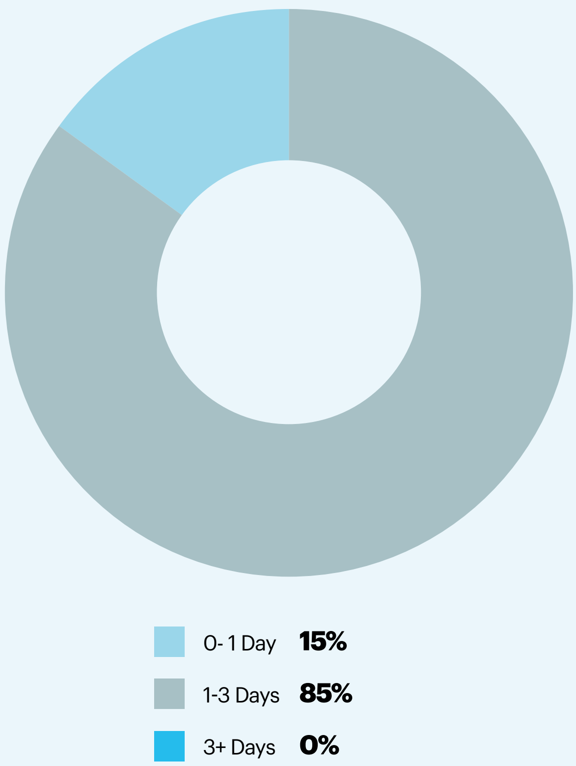
AVERAGE DAYS SALES OUTSTANDING (DSO) (2019)



PAID ON-TIME RATE (2019)



NUMBER OF DAYS TO CLEAR PAYMENT TO AR (2019)



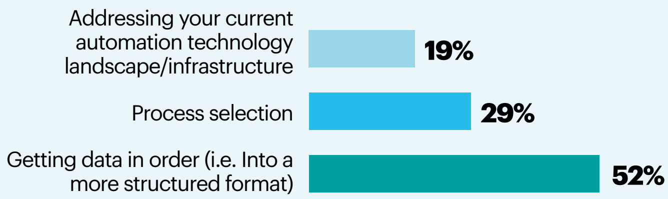
Source: SSON Analytics

REAL-TIME DATA INTEGRATION

While Shared Services is the model of choice for non-core support services across Finance functions, automation is the power lever. Manual AR processes are slow, error prone and simply inefficient. Today, advanced software solutions have replaced large teams of people.

Certainly, while many accounting departments have already recognised the value of AR software to automate activity, others have still not prioritised this or feel it is simply out of reach. The results of a live audience poll at Intelligent Automation Week 2019 revealed such a sentiment:

AS YOU MOVE FROM TASK AUTOMATION TO INTELLIGENT AUTOMATION, WHERE DO YOU EXPECT TO ENCOUNTER THE GREATEST HURDLES?



Source: Live Audience Poll, Intelligent Automation Week, November 2019

As an option, adding AR automation applications to ERP systems is a costly option and one of many businesses simply have not been willing to make.

One of the challenges to Finance services is that they are seen as back office and non-core. As a result, any monies available for investment tend to be funnelled to sales and marketing. However, with the maturity of the Shared Services model and recent emerging capabilities in data analytics coupled with automation, it has become clear that back office finance processes can do more than save costs; they can drive revenue – and cash – and have thus come under the performance microscope. The current climate in particular, with the significant disruption's businesses have faced, has brought accounts receivable onto the main stage. Cash collections are more important than ever.

More recently, other more sophisticated tools are taking automation to the next level and redefining the future of finance. Artificial Intelligence (AI)/Machine Learning (ML) and digital assistant tools possess the capabilities to provide insights and intelligence for even greater productivity – in today's circumstances, the value of this in maintaining cashflow and ensuring better proactivity is more critical than ever.

Although all business processes rely on human-generated insight and analysis for success, it is nearly impossible for treasury and A/R analysts to effectively scale, given that they spend 80% of their time in clerical tasks, processing huge volumes of transactions.
AI/ML decision-making is now an integral part of receivables and treasury processes, significantly reducing the manual effort lost in transaction processing or statistical forecasting, and freeing up time for high-value work! A good example of this tool would be HighRadius' Rivana Artificial Intelligence Platform. This tool is currently built on a dozen machine learning algorithms to continuously learn and provide insights on all possible A/R and treasury scenarios including use-cases such as predicting invoice payment dates, validation of deductions, predicting customer default or forecasting cash flows with pinpoint accuracy right up to individual invoice level and across all cash flow categories.

Similarly, in using a digital assistant, instant and quick access to basic information about receivables, payment history, customer master data, bank statements, cash positions and team or individual activity and performance can be accessed with the click of a button. Leveraging the capabilities of machine learning, these tools can interpret your data and enable accurate decision-making for the future – a critical capability for staying ahead of the curve,

HERE ARE SOME OF THE LEADING BENEFITS OF AR AUTOMATION:

1. REDUCED COST OF PROCESSING

Many companies still spend a lot of money on AR. Automating the process means many of these can be eliminated. Modern solutions make it possible to integrate many of the activities around AR.

2. REDUCED HUMAN ERROR

The wrong digit or a misplaced comma can throw off everything. Automation eliminates human-based errors, especially where different applications or systems are integrated. Outstanding invoices are tracked carefully automatically with less time required to correct mistakes, and fewer dissatisfied customers.

3. FASTER INCOMING PAYMENTS

For many companies, the biggest problem is simply getting customers to pay on time. With automation, invoices can be prepared quickly and sent to customers on a fixed schedule. This saves time at one end, and increases the likelihood that they'll actually receive and pay invoices in a much more timely fashion.

4. TIME SAVINGS

If you're manually preparing and checking invoices, you're looking at a significant time investment. Automation removes this altogether. The software knows what is needed and can seamlessly manage the process. AR systems can also notify customers, so no extra time is required in manually chasing up.

5. IMPROVED CUSTOMER SERVICE

The better the customer service, the happier the customer base and the more likely they'll keep on buying – and paying. Because AR software integrates with your existing CRM and ERP systems, it's also easier to help customers resolve any issues along the way.

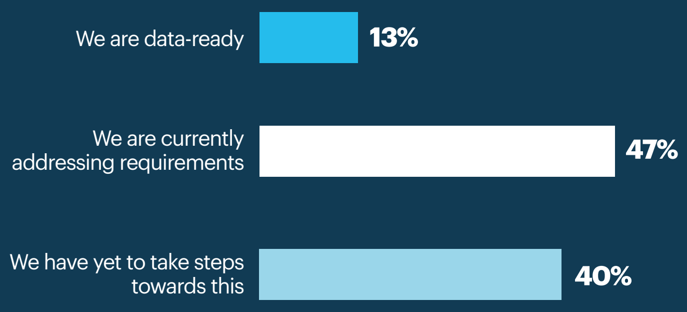
Order-to-cash shared services leaders are now counting on RPA initiatives to cater to the executive agenda of cost reductions in operations. But while RPA has a lot of potential in automating repetitive tasks, shared services leaders could stand to gain more if they couple RPA with Artificial Intelligence (AI).

In combining AR with AI and digital assistant, teams can laser-focus themselves on the strategic work with higher corporate impact. Whilst AI digital assistants perform the clerical tasks and provide deep analytical insights, AR analysts can evolve to combining this insight with their context-sensitive judgement to drive better outcomes! These include improved credit and sales collaboration, further reduced DSO and reduced revenue leakages.

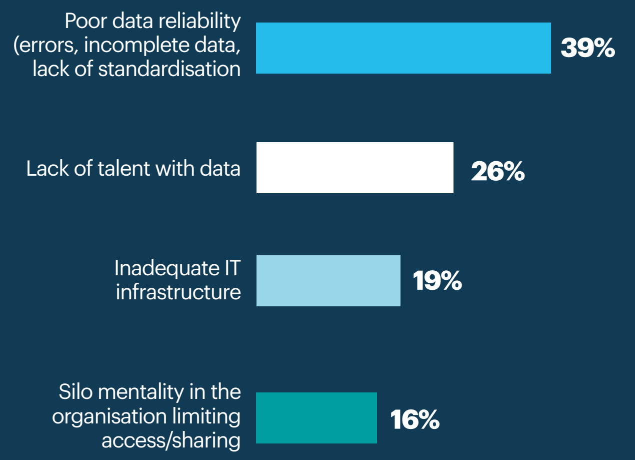
6. BETTER RISK ASSESSMENT & MITIGATION

Particularly for the credit teams, it becomes important to validate decisions because they can either make or break the cash flows in future. With the aid of data and technology, credit and collection teams have got better visibility into modifications of risk categories, financial risk alerts, and many other critical areas.

WHICH OF THE FOLLOWING IS YOUR MOST SIGNIFICANT BUSINESS IMPACT AS A RESULT OF THE COVID-19 OUTBREAK?



IF YOUR ORGANISATION IS NOT DATA-READY YET, WHICH OF THESE OPTIONS ACCOUNT FOR THIS?



Source: Future of Finance and CFO Summit 2020 Survey

TRANSFORMATION IN PRACTICE

CASE STUDY 1: ENGIE

INTERVIEW WITH DAVE HUGHES, DIRECTOR SHARED SERVICES, ENGIE

Q: WHAT WAS YOUR BIGGEST DRIVER FOR INVESTING IN ORDER-TO-CASH TECHNOLOGY?

A: Our biggest driver was the pursuit of digital resources as part of the Shared Service Center strategy. We needed to get much smarter with our approach to collections. With finite resources, it was crucial to invest time in the right areas, automate the routine transactions and provide better insight to our AR team. Ultimately, we are no different from any other organisation - we want to collect receivables as quickly as possible at the lowest possible cost. We knew we were not as efficient as we could be as we were asking our team to juggle many different priorities, without giving them the tools to guide them to make the right decisions.

Q: WHAT IS THE VALUE OF WORKING WITH A SINGLE VENDOR FOR TECHNOLOGY ACROSS MULTIPLE PROCESSES?

A: We have taken a lot of value from using technology to optimise our Order-to-Cash (O2C) process. These include;

- Being able to seamlessly move between applications and have an overall view of a customer account in one collective system.
- Removal of dependencies on third parties to complete the end to end process.
- Increasing productivity (as we aren't moving between different systems) and the removal of data duplication.
- Easier to develop processes as collective, and see their impact on each other.
- Allows integrated reporting, and less data manipulation using other tools such as spreadsheets to bring together data sources.
- Ability to present concise information in real time.

Q: HOW DID YOU GO ABOUT SECURING EXECUTIVE SPONSORSHIP AND APPROVAL FOR THE PROJECT?

A: The ROI of automation and structured approach to credit control was very clear for us to see and be able to articulate, when we compared it to the way we had been working. Our business case showed a significant saving in the implementation of automation of cash postings alongside value adding activities such as greater transparency of processes for the customer, a reporting suite, and customer segmentation to focus resources and operate in a leaner environment. The process improvement efficiencies from automated dunning and customer segmentation strategies would open up the potential to onboard more areas of the UK and Global Business Services to the integrated platform.

Q: WHICH AREA OF YOUR PREVIOUS PROCESSES HAS MOST IMPROVED AS A RESULT OF O2C TECHNOLOGY?

A: We've seen daily reporting of cash position across more than 40 bank accounts and over 20 legal entities. Furthermore, we've seen a cash allocation hit rate of 76% of the overall value of receipts successfully posted and cleared without human intervention, improving all the time due to machine learning and system cleansing of historic data.

CASE STUDY 2: MONDELEZ INTERNATIONAL

INTERVIEW WITH RALUCA STAICU, GLOBAL BILL TO CASH LEAD, MONDELEZ INTERNATIONAL

Q: THE ROI AND NUMBERS MATTER A LOT, BUT OTHER THAN THAT, WHAT DO YOU RECOMMEND ONE SHOULD LOOK FOR WHEN SELECTING A TECHNOLOGY PARTNER?

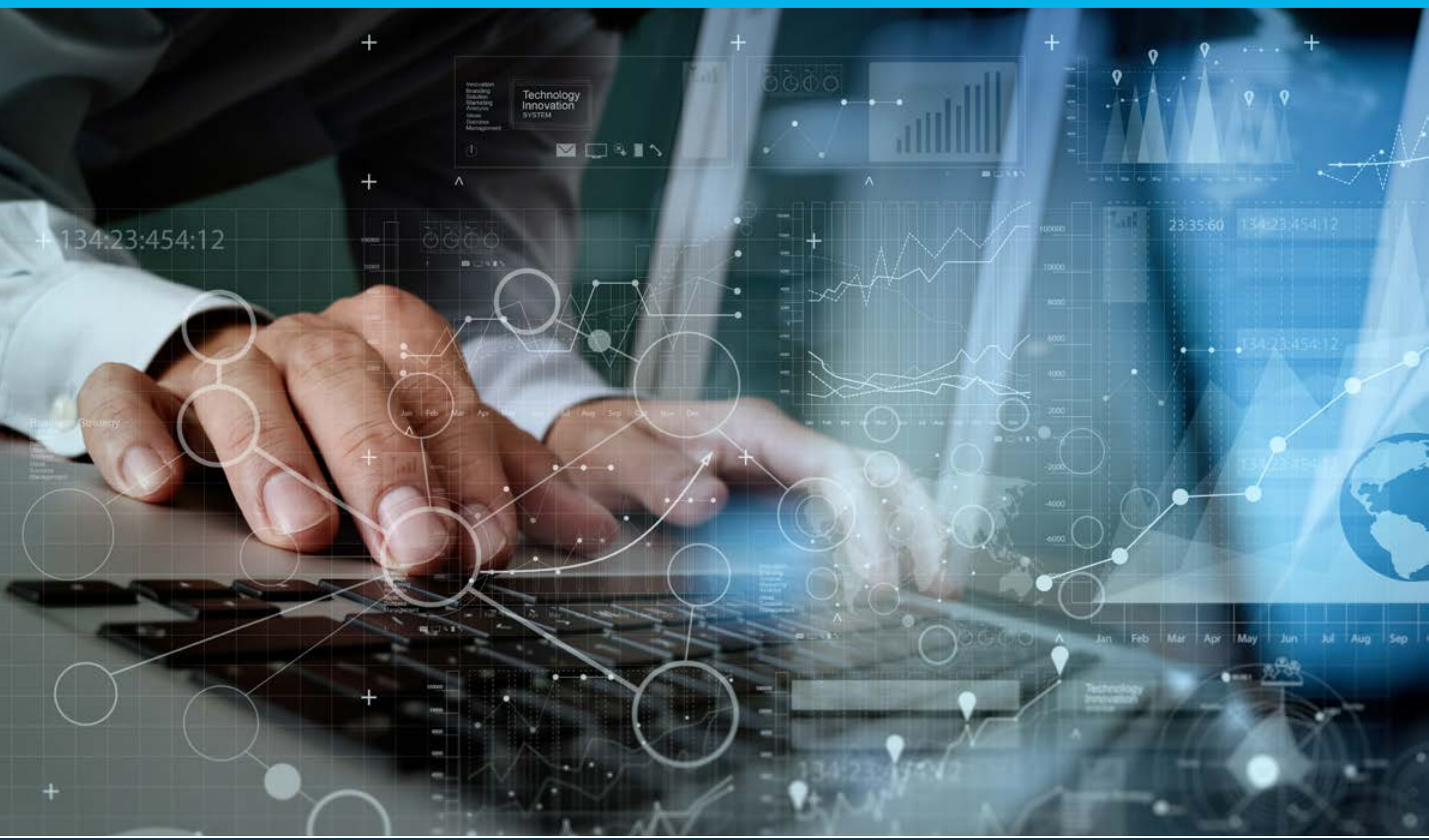
A: With technology evolving exponentially within months, a common future vision becomes critical to ensure a continuous evolution in the right direction. HighRadius in particular is pioneering in spaces like digital assistants (Freeda), autonomous receivables by combining the traditional analyst wok with AI and DA, and state-of-the-art analytics through their OneDot initiative. Other key factors to be considered include relevant presence and geographical coverage in your industry, partnership to define common goals and flexibility to adapt to changing needs/requirements and evolve the strategy.

Q: WHAT ARE SOME OF THE KEY REASONS WHY YOU CHOSE TO WORK WITH HIGHRADIUS FOR YOUR ORDER-TO-CASH TRANSFORMATION AS OPPOSED TO SIMPLY RUNNING AN IN-HOUSE RPA PROJECT THAT IS AN ALTERNATE?

A: Mondelez needed a solution that could be scaled globally and one that was flexible enough to cover our configuration/customisation requirements. A vendor with a deep expertise in all functions of the BTC cycle will typically be able to gain a better understanding of your processes and challenges and provide better guidance as to how to achieve a successful overall AR transformation. HighRadius offers an integrated receivables platform that allows us to have best-in-class receivables solutions across the board. This is in line with Mondelez architecture strategy and has obvious benefits for the BTC operations too as all modules are integrated and feed from each other enabling stronger capabilities.

Q: WHICH AREA OF YOUR PREVIOUS PROCESSES HAS MOST IMPROVED AS A RESULT OF O2C TECHNOLOGY?

A: In using one global solution to manage cash application and deductions, reporting and visibility on performance have been considerably enhanced. What's more, we've had 80%+ cash application automation across markets where implementation took place, and a wealth of new opportunities to streamline process and achieve standardisation through the journey.



CASH IS STILL KING - NOW MORE THAN EVER

WE SPOKE WITH...

Natalie Fedie
Vice President of Customer Value
HighRadius

Q: HOW HAS THE FOCUS ON ORDER TO CASH AND ACCOUNTS RECEIVABLE EVOLVED OVER THE YEARS FOR THE OFFICE OF THE CFO? HOW HAS THE RECENT ECONOMIC UNCERTAINTY PLAYED A ROLE?

HighRadius started close to 15 years ago, and at that time we noticed that there was a huge lack of tools and capabilities to support the AR space. A lot of ERP systems don't have a lot of 'out-of-the-box' functionality to support the day-to-day functions, and so there's a lot of overburden with analysts having a lot of manual work to do.

Over the course of time, we've been able to automate a lot of those systems, and we've now worked on over 950 AR transformation projects. Currently, we have a full suite of solutions that automate the whole O2C workflow process. At the end of the day, financial leaders are looking for how much value we can provide them - value in terms of lowering DSO, lowering operating expenses, increased cash flow and working capital.

The current economy really has put more of an effort on the O2c process itself... cash is king, now more than ever. AR is a big driver to ensure that working capital is available, and so we're seeing a lot more attention towards AR at this time.

Q: WHAT ARE YOU HEARING FROM THE AR TEAMS THAT YOU WORK WITH IN THE CURRENT SITUATION AND HOW ARE YOU SUPPORTING THEM?

We're more than just a technology provider. We are also a process functional expert, so we help design the workflow processes to help increase those efficiencies and meet those business objectives. We're seeing that our clients want us to help them more, and so we've created the customer value team.

The customer value team works with our clients to make sure they're maximising the value of our software systems, making sure that there is adoption of the system. Change management is a huge piece of any successful digital transformation, so making sure that we're working with them on a regular basis to increase adoption is really important. We do that through identifying gaps in the process and providing proactive recommendations for improvement.

Q: YOU MENTIONED THAT INVESTMENT IN O2C TECH IS DEPENDENT ON THE ROI AND VALUE. HOW DO YOU WORK WITH YOUR CLIENTS TO ENSURE THAT THEY GET VALUE?

We have come up with what we call the 'dot one' performance system. What that means is that we strive to become a dot one, or one in 1,000 companies. We just received a billion dollar valuation very much focused on our performance, but we also realise that in order to become dot one, our customers have to become dot one as well. It's our driving force to help them achieve greatness and achieve value so that they can be one in 1,000 as well. So how do we do that?

We built a framework of metrics that starts all the way from the very basic of adoption and performance as far as analyst's productivity, your customer productivity, all the way up to driving those business values like lowering DSO or decreasing bad debt. Those are the things that really matter to a business, so we define this framework of measuring that value. For example, we will actually monitor user adoption in real time to make sure that our users are using the system to meet their performance objectives. Afterwards, as I mentioned before, we work with them to make sure that we provide the best recommendations to improve and increase efficiencies, lead them to their business objectives.

Q: HOW ARE YOU WORKING WITH NEW CLIENTS IN THE CURRENT SITUATION - IS THE CURRENT ECONOMIC CLIMATE AND REMOTE-WORKING ENVIRONMENT CREATING A CHALLENGE?

We believe the current economic climate has put a focus on the importance of working capital, access to key cash and liquidity. It's critical to make sure that you're able to collect on your incoming cash, as well as the credit offering credit to customers who might be in a need to buy, and buy fast. Supporting that sales effort is going to be really important.

We've seen a natural demand for the ability to help increase automation and efficiencies in these areas through work we are doing with customers and partners globally.

SUMMARY

Given AR's critical role in bringing cash into the organisation, optimising not just the cost but also the outcome is critical – today, more than ever. Efficient AR processing through a standardised model and state-of-the-art technology saves time and cost, reduces human error, and eliminates the need for a large employee headcount.

Moving to advanced automation technology for the proper management of AR is a prudent next step for business growth and sustainability. As Engie's Dave Hughes explains, "Now more than ever, the need for investing in the O2C process is paramount. Maintaining liquidity and a healthy working capital cycle are huge challenges during COVID19 - we have excellent customer relationships and right now all of our customers are facing huge challenges. As a critical supplier it is our role to support our customers as much as possible, If what you have is a very complex and heavily manual AR collections process, then now is the time to make smart decisions."

With this in mind, it may be time to consider learning more about how much your business can benefit from having a fully automated AR process. All so you can stay focused on what really matters – growing your business. Taking the time to create streamlined AR procedures now is an effort for which your future organisation will be grateful.