WHITEPAPER

ACCOUNTS RECEIVABLE AUTOMATION

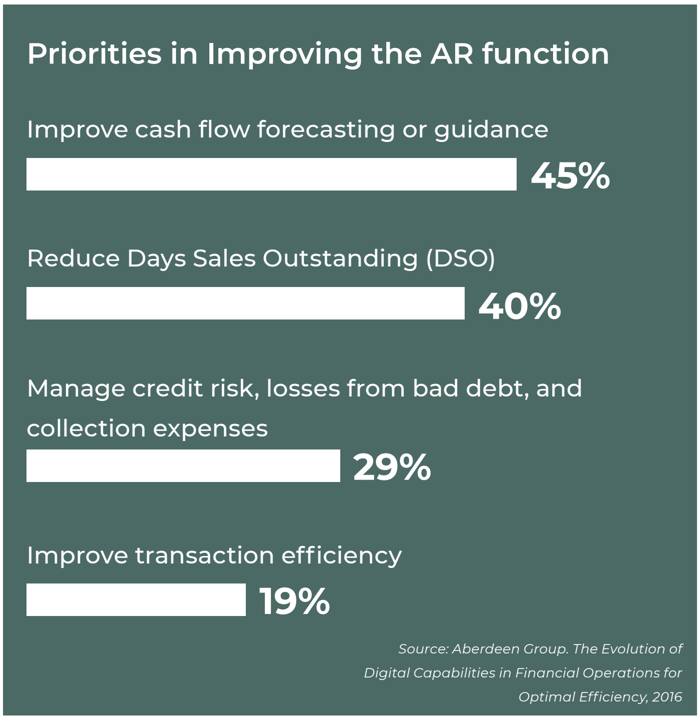
Contents

Optimizing accounts receivable (AR) is one of the cornerstones of efficient working capital management and plays a crucial role in freeing up cash that is hiding in business processes. A streamlined accounts receivable process prevents existing liquidity from laying idle and helps harness it for growth, investment, or debt reduction.

The Heart of Accounts Receivable

Recouping revenues and quickly making them available for effective use elsewhere in the organization should be a key target for any AR department.

In this whitepaper, we will discuss the benefits of accounts receivable automation and focus on the reconciliation process, the heart of the accounts receivable function. We will explore how automation and software can help overcome the operational obstacles in accounts receivables and speed up the process that actually brings cash into the organization.



Priorities in Improving the AR function

Source: Aberdeen Group. The Evolution of Digital Capabilities in Financial Operations for Optimal Efficiency, 2016

Accounts Receivable Needs to Bridge the Gap in Digitalization

Even today, AR is lagging behind in both technology and automation, and in many organizations, the struggle with the inefficiencies of highly manual invoice-to-cash processes continues – even if AR is recognized as a critical function for daily business operations.

Usually, the financial management is faced with pressure to reduce the time and manpower used to carry out financial processes, along with the need to expedite the delivery of essential financial information.

Manual processes in accounts payable (AP) and accounts receivable (AR) are costly and time-consuming, and, in addition, they increase the risk of inaccurate data, leading to insufficient support for business, among other things. The digital revolution has transformed many business processes, including the buyer-driven AP function. During the recent years, centralizing, streamlining, and driving efficiencies through automation in the entire purchase-to-pay process has been a key focus for financial management. However, AR remains an area where digitalization has not yet progressed with similar leaps.

To keep pace with today's fast-moving and cost-sensitive business environment and respond to the constantly rising demands to improve working capital metrics, AR departments need to move away from their laborious ways of working.

Improving AR performance and achieving the goals mentioned above require holistic actions and close collaboration between sales, finance, and AR. The trick is not just to get cash in from sales using reasonable credit policies and efficient invoicing, but also to apply the incoming cash rapidly to the correct customer invoices to make it accessible.

Streamlining processes

One effective approach is to leverage automation in the accounts receivable processing. Currently in many organizations, handling incoming payments are a major bottleneck and it ties up most of the time and effort in AR departments or Shared Service Centers (SSC). By reducing the amount of manual work, AR can both free resources for more value-adding tasks, such as mitigating the risks of bad debts, and improve the quality and speed of the reconciliation process and thus, the financial data delivered. Streamlined processes help gain efficiencies and ultimately, support the aim of collecting revenues more rapidly than before.

As these benefits show, the efficiency of the entire accounts receivable process will eventually show on your bottom line. Poor performance in one part of the process may cancel out the advantages gained in an other part. For example, even if your company has made sales and earned enough revenues to cover its expenses and create some profit, poor allocation of incoming payments may slow down your cash flows, trap working capital in overdue receivables, and end up damaging your financial health.

Benefits received from automating the AR

20%
Reduction in Days Sales Outstanding DSO

25%
Reduction in past due receivables

Source: Paystream Advisors

Take the Proactive Approach

Many organizations are at fault for treating the account receivables process as an afterthought and overlooking opportunities to improve and streamline the process. Effectively capturing incoming payments is a major part of it, but, in mature organizations, the groundwork for AR excellence is laid down in the first steps of the order-to-cash process. You should pay attention to these:

- Enable close collaboration between sales and finance to determine payment terms that suit both your business and your customers.
- Adopt clear policies for issuing credit to customers and a culture that ensures that the established policies are also followed in practice.
- Digitalize AR related processes and switch to electronic invoicing to speed up invoice delivery times.
- Focus on your invoicing process to improve the quality and accuracy of your invoice information and to make sure your invoices are generated in a timely manner.
- Demand more detailed payment information from your bank account statements – XML-based CAMT material supports the AR reconciliation process better than basic MT940 format.
- Improve your ability to allocate incoming cash correctly and quickly, to be able to identify outstanding payments and take appropriate action to collect your receivables.
- Complete the automation and finalize account statement processing with automated posting utilizing the information gathered in reconciliation.

PAIN POINTS OF AR RECONCILIATION

At the heart of the accounts receivable function is the reconciliation process. When a payment comes in, it needs to be quickly allocated to the right customer and the right customer invoice to make the liquidity available for efficient use elsewhere in the organization. The AR function is well-placed to strengthen an organization's cash flow, improve its working capital and even enhance customer satisfaction, but the invoice-to-cash process is also known to be complex and cumbersome, and challenging to automate. In most organizations, handling incoming payments is a time-consuming and manual process. Yet AR departments and SSCs are faced with the challenge to do more with fewer resources, and aware that financial information is needed both quickly and accurately. Regardless of the industry, the major pain points in AR reconciliation are quite similar from one organization to the next.

Manual processes are slow and risky

AR reconciliation remains a labor-intensive area of financial management. In many cases, matching incoming payments requires manual work, which causes inefficiencies and significant delays in allocating cash, and makes the process prone to errors. Many companies are using ERP and accounting systems for AR management, but a great many manual tasks needed to actually match payments to invoices.

Process continuity is vulnerable

The nature of the reconciliation process with a lot of exception handling makes it a vulnerable part of the accounts receivable process in the AR department or in a SSC. Know-how in terms of allocating incoming cash can be restricted to certain persons, who know where and what to look for when trying to find a home for unallocated payments. This puts process continuity at risk.

Unallocated cash is trapped working capital

Organizations work hard to sell their products and services, and collecting revenue is the obvious lifeblood of any business. An inefficient AR reconciliation process means the hard-earned money may even be in the bank, but as it is not properly recognized it is not available for use. The more manual work and time required to allocate incoming cash, the more cash left idle and unallocated. Organizations that fail to quickly apply incoming cash to the right customer have considerable amounts of working capital tied up in their AR process.

From who, why and, when to collect overdue receivables

Proper follow-up on late payments becomes next to impossible if the reconciliation process for incoming payments is not efficient and transparent. From a large sum of unallocated cash, it is hard to identify the invoices that are truly overdue, and take timely action to collect what these late payers owe you. On the other hand, you can end up sending an unjustified reminder letter to customers who already have settled their invoices, causing friction in customer relations and unnecessary contacts to customer service.

Unmatched invoices – exceptions are the rule

The complexities, such as different payment methods, many banking partners and imperfect payment information from customers, make it cumbersome to apply strict rule-based matching to incoming payment handling. Comparing the payment data from the bank account statement to the invoice data from ERP, for example, is often not sufficient to allocate the cash. To correctly identify who has paid and for what, AR staff need to look for more information in multiple systems, or even contact the customer who has made the payment. One unidentified transaction can take tens of minutes to resolve.

Benefits of Automated AR Reconciliation

Nomentia Matching utilizes machine learning algorithms which allow for the flexibility in creating and applying the automation rules so that they fit specifically to your AR process' characteristics and system environment.

The drawback of many automation tools available for AR is that they do not sufficiently cater for the complexity of the reconciliation process. The data needed to process bank account transactions correctly can be in multiple ERPs and other systems, while at the same time different payment material types from lock box files to payment advices place different demands on the reconciliation process.

With Nomentia Matching, a modern middleware for AR, reconciliation can happen in a single system that matches all the different types of transactions. This approach is a step on from the strict rule-based, hard-coded automation that requires knowledge of programming and scripting languages. Nomentia Matching utilizes machine learning algorithms which allow for flexibility in creating and applying the automation rules so that they fit specifically to your AR process' characteristics and system environment. An intuitive, easy-to-understand tool enables the AR staff, who typically know the peculiarities of the process by heart, to develop the automation further, based on your organization's specific needs.

Whereas traditional AR matching tools are limited to the dimensions available on the bank transaction data and invoice data from ERP, Nomentia Matching has advanced options to enrich the data from third party sources, such as customer database or payment advices. This increases the proportion of payments that can be handled automatically without user action, but it also improves the quality and accuracy of the suggestions in assisted matching.

Why choose modern middleware for AR reconciliation?

- The focus is on your reconciliation processes' needs, not on the restrictions of the system
- Future-proof process that already utilizes machine-learning algorithms will enable continuous enhancement of automation rates, without IT departments' involvement
- Intuitive, user-friendly tool makes exception handling and continuous development effortless
- Changing ERP system is time-consuming and expensive. Modern middleware can work with multiple ERPs
- When your business grows, a new entity is easy to integrate in the reconciliation process.
- Built-in bank connections and advanced integration in other systems for effortless implementation.

FOUR KEY BENEFITS OF MATCHING AUTOMATION

1 Improve Working Capital Efficiency

Quickly and accurately allocating all received payments through automation helps to strengthen and secure your cash inflows and support the important goal of reducing your DSO. Expediting the time it takes to clear your incoming payments on the right accounts reduces the amount of unallocated cash. It can significantly free up liquidity for more efficient use and also improve the reliability of your cash forecasts.

2 Enhance Customer Satisfaction

When incoming payments are allocated in a timely manner, you have an up-to-date view on which customers have paid which invoices. Collaboration between AR and business is smoother and customer satisfaction is not damaged by unnecessary reminder letters and dunning. At worst, slow AR matching might even prevent further sales. The customer's credit limit can appear to be exceeded, and their account is frozen, even if the invoices have long been paid – you have simply not allocated them correctly, if at all.

3 Reduce Manual Work, Errors, and Costs

Eliminating the manual steps in cash allocation speeds up the cycle from payment to cash at hand. Instead of searching and keying in data and chasing remittance information, the AR department can focus on more value-adding work that helps identify issues, reduce bad debts and improve collections. Automated reconciliation also frees up more time to focus on unidentified transactions and sort them out.

4 Enable Continuous Development

Reporting becomes efficient, when the reconciliation process is harmonized and performed using a single tool. Clear reports on how big a portion of your bank transactions are automatically matched, assisted matched or not matched help you monitor the progress of your AR automation and provide valuable insight into the invoicing process. Continuous development is ensured when AR personnel are given the opportunity to easily create new automation rules. When they handle the exceptions, and look through the assisted matching suggestions, they can spot repetitions and push automation another step forward. Nomentia Matching utilizes machine learning algorithms which allow for the flexibility in creating and applying the automation rules so that they fit specifically to your AR process' characteristics and system environment.

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