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WHITE PAPER

Get smart about the numbers

Use AP and AR data to boost revenue

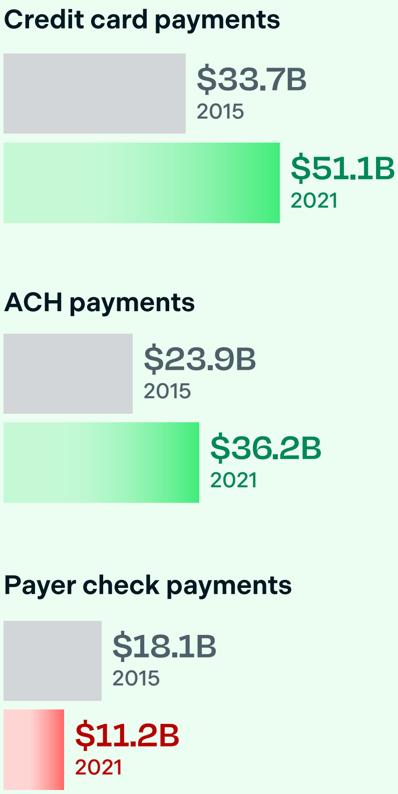
Automation: An integral part of digitalization

For too long, an "If it ain't broke, don't fix it" mentality has held sway in the world of payments professionals.

That's changing, thanks in part to the digitalization and data explosion taking place. Accounts receivable (AR) and accounts payable (AP) departments are beginning to see that when data is analyzed properly, it points to efficiencies that can boost revenue in ways both large and small.

A good place to begin using AR and AP data to sweat the small stuff and start making revenue-enhancing changes is by asking some tough questions about your existing processes.

PAYMENTS' MIXED FORTUNES



Source: Federal Reserve

Forced digitalization brings valuable data

Automation within payments became a "must have" during the pandemic, when entire AR and AP functions were run from employees' kitchens and family rooms.

Although many professionals have returned to their cubicles, the number of employees working from home remains high in what the authors of a 2023 Stanford University study described as "a permanent increase."

As of January 2023, for instance, 27.2% of the U.S. labor force worked at least one full day a week from home – over five times the 4.7% doing so before "COVID-19" entered our collective vocabulary.

For this remote and hybrid workforce, automation is essential. And with automation comes data that can be readily analyzed.

The holy grail within payments data is the ability to "look at trends you're seeing in your buyer behavior," says Shirra Frost, Billtrust's Senior Director of Product Marketing. By examining the kinds of payments that customers are leveraging, companies can devise ways to make these payments simpler — and even provide incentives to shift toward digitized payment methods that benefit companies, she says.

Today's savviest companies are mining the new payments data they're gathering to control costs; shift to faster, less error-prone payment methods; increase customer satisfaction; remove barriers from payment; and slash the amount of time employees spend on manual AP/AR tasks.

To boost revenues by working smarter, companies need to revisit entrenched practices and make changes. Here are seven critical questions to ask.

7 questions to ask when moving to AR and AP automation

1. Is your AP department shying away from paper checks?

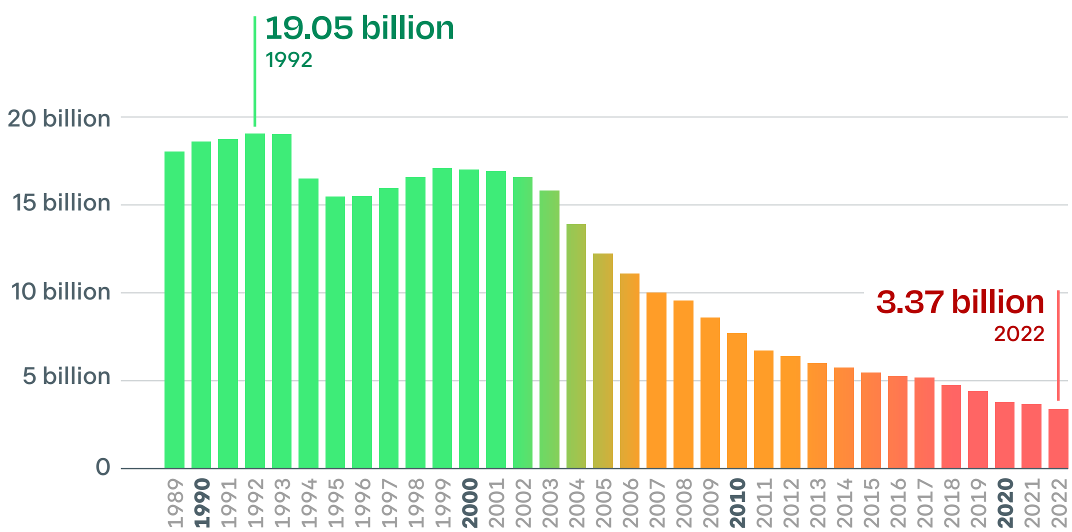
Putting paid to paper checks is a good idea for payments professionals everywhere.

Start by thinking of all the expenses associated with paper checks. Bank of America estimates that the cost of processing a *single business check* ranges from $4 to $20. This statistic includes the materials costs for the checks themselves as well as for stamps and envelopes — along with the time and labor costs of writing checks and reconciling payments.

Worse, checks typically take two business days to clear, sometimes longer. In an era of 7% to 8% inflation, that time lag means a loss of interest that could be accruing.

The name of the game, emphasizes Frost, is to move away from checks and "push customers to payment methods where the company can get paid quicker."

Commercial checks collected through the Federal Reserve



Source: Federal Reserve

2. Are you reducing the number of times your staff "touches" payments being processed?

Finding ways to shift towards digitalization and away from manually entering data is critical.

Even credit cards—which Frost recommends as a wonderful payment method for companies to embrace—can lead to problems when manual processes are involved. How often do employees find themselves taking credit card numbers over the phone, rather than automatically entering this information into a portal and the AR system?

Each instance of manual entry is an opening for errors and decoupled remits down the road.

Automation not only reduces errors but can also lead to other efficiencies. Freed from repetitive manual tasks, your employees can engage in value-add activities.

3. Have you created strong, written AR and AP policies that can be enforced?

Data lets companies identify problem areas in the order-to-cash cycle. Once these problems are spotted, the next step is creating clear policies for avoiding these headaches in the future.

Making sure that your AR policies are carefully considered and clearly expressed is pivotal to getting your AR process under control. Without written policies, you may be providing customers with free financing when that was never your intention!

Adopting new policies isn't always easy, and some leaders face pushback. In a sales-driven culture, for instance, reps may prefer a "flexible" attitude toward payments so they can clinch more deals. Although everyone wants to close, it's also important to have clear payment terms so the deals struck are profitable.

Carrying overdue accounts receivables may seem like small stuff, but it's not. Late or hard-to-collect payments have a direct impact on cash flow and can even leave a company strapped when the next great growth opportunity comes knocking.

40%

of financial professionals say they would likely convert the majority of their B2B supplier payments to digital methods within the next three years.

Source: AFP

4. Are you looking for payment win-wins?

Getting paid with an old-fashioned paper check means that payments take longer to process, your DSO is larger, and the entire AR process is subject to hiccups.

Companies should be proactive about shifting customers towards digitized payments.

Frost sings the praises of credit cards. Credit-card payments are not only speedy (allowing a company to start earning interest faster); they are accompanied by useful data that your business can analyze.

As an alternative to credit cards, instant payments through ACH is another appealing option.

The numbers tell a powerful story. According to the Association for Financial Professionals (AFP), it costs $1 to $2 to receive a single check, while it costs only around 50 cents to receive the same funds through an ACH payment.

It's human nature to resist change, and a powerful sticking point has been a wariness around digital payment methods.

Fortunately, attitudes are changing. In its 2022 payments survey, AFP found that more than 40% of survey respondents said that within the next three years they would likely convert the majority of their B2B supplier payments to digital methods.

Until 2023, ACH was the only game in town, but that too is changing. The Federal Reserve's FedNow network could help spur a migration to digital payments, as companies have another option to consider. FedNow has said that it will enable businesses and individuals to receive instant payments in real time, 24/7, with no days off and no holidays taken.

Frost recommends studying how your company is receiving payments today. The key question, she says, is "how can you use your existing data to decrease your costs by encouraging buyers to switch to other payments methods?"

5. Are you tightening the reins on invoicing policies?

"You have to convince people to invoice differently," says Frost. "Instead of print and mail, companies should be invoicing digitally to their buyers."

Automating invoicing has met with resistance in the past, but good sense is starting to win out. Digital invoicing saves labor costs (employees no longer have to draw up and mail out invoices), and invoicing online means the status of a payment can be effortlessly tracked.

6. Have you automated the collections process?

Some companies let sales reps override credit limits or engage in other practices that can complicate the AR process. Others have never trained the AR team on dealing with late-paying customers. In situations like these, cash that the company should have in house for growth opportunities is not there, because it hasn't been collected on time.

Electronic billing and payment systems automatically send follow-ups that can help keep DSO low and ensure invoices don't languish.

One rule of thumb is to send a follow-up the day a payment is late, then follow up every week until the payment has been successfully received.

7. Are you capturing and tracking the right KPIs?

When it comes to establishing KPIs, or key performance indicators, the small stuff really matters.

Companies tend to focus on DSO, which is justifiably the top metric for AR. As a rule of thumb, DSO should be kept below 30.

No one is arguing against the importance of DSO, but what about all the other metrics that contribute to a desirable DSO? Metrics like ADD (average days delinquent) or your turnover ratio (the metric for how quickly you're turning accounts into cash) should not be overlooked.

Along these lines, companies might want to track the number of invoices past due, and how long past due they go before ultimately being paid.

Other metrics that affect DSO are worth gathering, too, because they give a company a glimpse into its own practices. A company might, for instance, want to track how many invoices have been revised, a statistic that can be used to highlight how errors made delay payment.

Capturing and tracking the metrics that feed into DSO can point to innovative ways to strengthen your order-to-cash cycle results.

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Learn more

Visit billtrust.com or contact our sales team.

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.

CORPORATE HEADQUARTERS

1009 Lenox Drive, Suite 101
Lawrenceville, New Jersey 08648
United States

HAMILTON

11 South Gold Drive, Suite D
Hamilton, New Jersey 08619
United States

SACRAMENTO

2400 Port Street
West Sacramento, California 95691
United States

GHENT

Moutstraat 64/501
9000 Ghent
Belgium

AMSTERDAM

H.J.E. Wenckebachweg 200-III
Amsterdam AS 1096
Netherlands

KRAKÓW

ul. prof Michała Życzkowskiego 19
3 piętro
Kraków 31-864
Poland

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