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B2B PAYMENTS INNOVATION READINESS PLAYBOOK

The B2B Payments Innovation Readiness Playbook: Adapting To Cash Flow Challenges Posed By The Pandemic, a PYMNTS and American Express collaboration, analyzes the survey responses of 460 small to large businesses to understand how manual processes impact accounts receivable for businesses across a variety of sectors, including the advertising, technology, construction, energy and healthcare industries. The report further explores how automation can help firms improve their collection cycles and reduce the average days sales outstanding.

ADAPTING TO **CASH FLOW CHALLENGES** POSED BY THE PANDEMIC

B2B PAYMENTS INNOVATION READINESS

The B2B Payments Innovation Readiness Playbook was done in collaboration with American Express, and PYMNTS is grateful for the company's support and insight. **PYMNTS.com** retains full editorial control over the following findings, methodology and data analysis.

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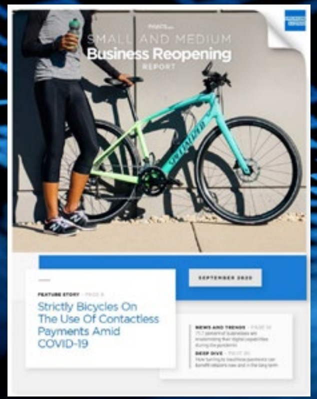

Small And Medium Business Reopening Report

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B2B Payments Innovation Readiness Report

SEPTEMBER 2020

2021 New Merchant Business Models Playbook

NOVEMBER 2020

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INTRODUCTION

Paper-based payment processes are slow and costly, and their use to collect receivables makes existing payment pain points even worse. This is the key takeaway from a study of 2,203 small to large businesses representing a variety of sectors.

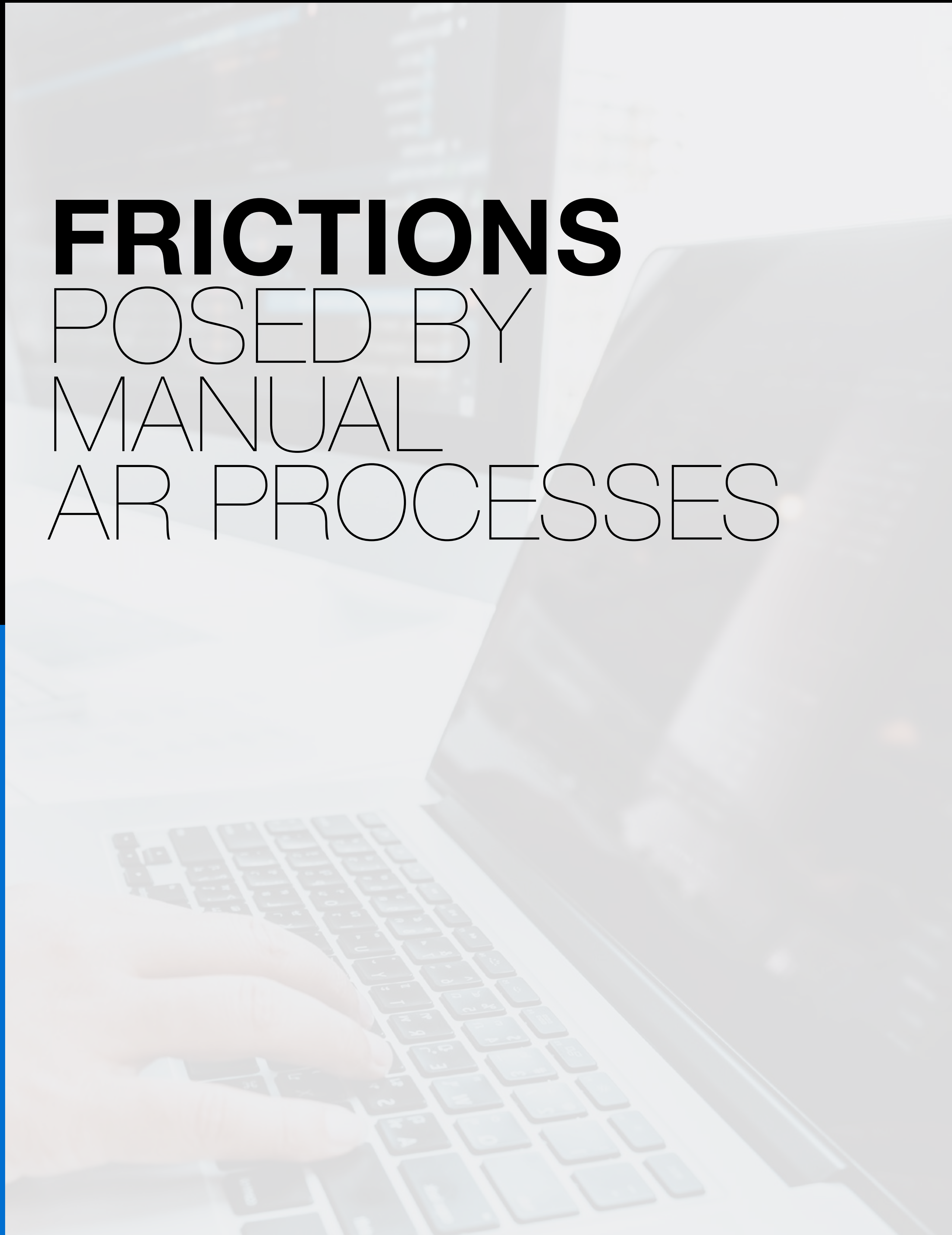
The good news, however, is that two-thirds of firms are cognizant of these issues and are actively moving away from manual processes, planning instead to embrace new technological solutions to upgrade their AR systems for faster processing, more efficiency and lower costs.[1]

This shift is particularly apparent among businesses in the technology, healthcare and construction sectors. A higher share of firms in these sectors — especially those that have been slow to automate their AR processes — are implementing new technologies and adopting AR automation. Interest in upgrading AR processes is particularly high for invoice delivery and payment acceptance capabilities — two key functions that have been particularly impacted by the ongoing pandemic.

PYMNTS' research confirms that firms turning to automation technologies to help with AR functions such as cash application, payment acceptance, collections, customer credit checks and reconciliation during the pandemic are finding themselves in a better position to more easily adapt to changing market dynamics.

The B2B Payments Innovation Readiness Playbook: Adapting To Cash Flow Challenges Posed By The Pandemic, a PYMNTS and American Express collaboration, seeks to explore how new technologies can help firms prepare for this ever-changing payments landscape in which crucial AR functions must be executed in an agile and effortless manner. The playbook draws from a survey of treasury executives representing small to large businesses in numerous sectors, including advertising, technology, construction, energy and healthcare.

[1] B2B Payments Innovation Readiness. PYMNTS.com. September 2020. https://www.pymnts.com/study/b2b-payments-innovation-readiness-report-american-express-september-2020/. Accessed November 2020.



FRICTIONS POSED BY MANUAL AR PROCESSES

The pandemic has impacted the cash flows of businesses of all shapes and sizes, but perhaps no firms have been as severely impacted as those reliant on manual processes. Case in point: Firms that rely on manual processes take 67 percent more time to follow up on overdue payments than those that use automated AR processes. Businesses that rely on manual AR processes also have 30 percent longer average DSO than firms that rely on medium or high levels of automated processes for collecting receivables.

Businesses most commonly cite manually handled customer credit checks (27.6 percent) and cash application and reconciliation (22.6 percent) as trouble areas related to AR processes. Challenges associated with cash application and reconciliation can be particularly detrimental to the health of a business, as they result in high operating costs. Reliance on such manual processes also impacts collections for the 18.5 percent of firms that identify managing AR manually as a pain point.

FIRMS THAT RELY ON MANUAL PROCESSES **TAKE 67% MORE TIME TO FOLLOW UP** ON OVERDUE PAYMENTS THAN THOSE THAT USE AUTOMATED AR PROCESSES.

TABLE 1:

Firms' views regarding their main trouble areas related to AR processes
Share of businesses citing each point as an AR-related trouble area, by AR process

Least trouble
Most trouble

	Payment acceptance	Customer credit check	Collections	Invoice delivery	Cash application
• Operating costs	13.0%	12.0%	14.8%	13.0%	15.9%
• Manual processes	19.1%	27.6%	18.5%	19.3%	22.6%
• Process speed	14.8%	13.3%	14.8%	14.1%	15.7%
• Errors	12.6%	13.7%	9.1%	23.0%	12.4%
• Inefficiency	12.2%	10.9%	13.7%	10.0%	12.8%
• Head count costs	10.4%	11.1%	9.6%	10.2%	8.0%
• DSO improvement	11.7%	7.8%	9.3%	7.2%	8.3%
• Collections improvement	6.1%	3.7%	10.2%	3.0%	4.3%

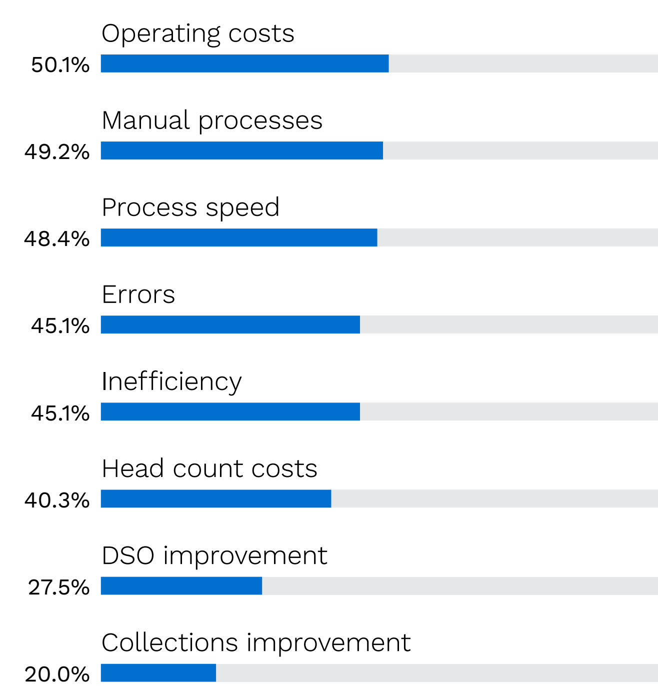
Source: PYMNTS.com

The three challenges firms identify as the most problematic when it comes to managing AR are high operating costs (50.1 percent), manual processes (49.2 percent) and process speed (48.4 percent). This makes sense because manual processes reduce the speed at which firms deliver invoices and follow up on overdue payments, reducing efficiency when prioritizing collections. Manual processes also increase the likelihood of errors, which then must be manually identified and fixed. These unwieldy processes raise operational costs and generate unnecessary errors. Manual AR processes are still in common practice, however, so it is not surprising that firms across the board identify AR as their main trouble area.

OPERATING COSTS, MANUAL PROCESSES AND **PROCESS SPEED** ARE **THE TOP 3** AR CHALLENGES.

FIGURE 1:

Firms' views regarding their main trouble areas related to AR processes
Share of businesses citing each AR problem area



Source: PYMNTS.com

Firms from different industries are impacted by manual AR processes to varying degrees, however. Manually running customer credit checks is a pain point for 38.9 percent of firms in the construction sector, yet 28.2 percent of healthcare firms and 26.3 percent of construction firms see manually handling invoices as a challenge. We also find that 44.4 percent of firms in advertising see manual errors as a main problem faced by their AR departments.

THE PANDEMIC **RECEIVABLES COLLECTION** IMPERATIVE

49%

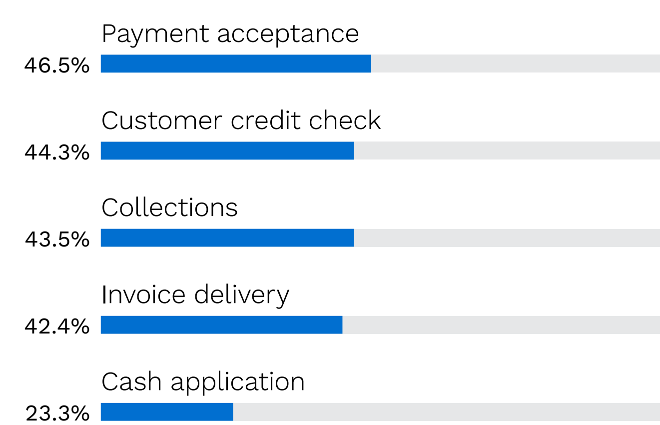
OF SMALL BUSINESSES **FIND COLLECTIONS CHALLENGING** OUTSIDE THE OFFICE.

The pandemic has exacerbated challenges associated with manually managing AR processes such as late payments, and these challenges have, in turn, resulted in the average days sales outstanding (DSO) increasing from 39.7 days to 42.6 days. This outcome has significantly impacted companies' abilities to maintain their cash flows and keep their businesses up and running.

Firms are also being challenged to find alternative ways to perform functions that were traditionally handled in physical offices. Our research indicates that 43.5 percent of energy firms have struggled with collections since the start of the pandemic. Collections are also a key challenge area for small businesses, with 48.7 percent saying the function was highly affected by the pandemic. Healthcare firms, meanwhile, seem to be struggling most with credit checks, as 53.8 percent report such issues.

FIGURE 2:

AR processes most affected by the pandemic
Share of businesses citing select processes as among the top two most affected by the pandemic[2]



Source: PYMNTS.com

[2] "Most affected" means ranked as the top or second-most pressing concern by respondents.

Firms' reliance on manual processes is labor-intensive, too, especially when it comes to invoicing and payments. Our research shows that AR departments dedicate 24.5 percent of their staff to supporting invoicing and 23.2 percent to managing payments. Tasks such as handling cash applications and credit checks, which the bulk of firms identify as the most challenging, are a lot less labor-intensive, as firms dedicate just 15 percent and 17.9 percent of workers to them, respectively.

TABLE 2:

AR processes most impacted by the pandemic

Share of firms citing select processes as among the top two most affected by the pandemic, by firm size and sector

Most change
Least change

	Payment acceptance	Customer credit check	Collections	Invoice delivery	Cash application
REVENUE					
• Less than $50M	46.8%	39.1%	**48.7%**	42.9%	**22.4%**
• $50M to $500M	46.0%	47.8%	39.8%	42.2%	24.2%
• More than $500M	46.9%	46.2%	42.0%	42.0%	23.1%
SEGMENT					
• Healthcare	33.3%	53.8%	41.0%	43.6%	28.2%
• Energy	29.0%	50.0%	43.5%	45.2%	32.3%
• Construction	41.1%	47.4%	40.0%	46.3%	25.3%
• Technology	**56.2%**	42.9%	42.9%	39.1%	**18.9%**
• Advertising	42.9%	42.9%	41.3%	46.0%	27.0%

Source: PYMNTS.com

Overall, nearly 45 percent of firms cite payment acceptance, customer credit checks, invoice delivery and payment collections as the areas most affected by the sudden shift to digital processes during the pandemic.

25%

OF AR DEPARTMENTS' STAFF MEMBERS ARE DEDICATED TO **HANDLING INVOICING,**

WHEREAS ONLY **15 PERCENT AND 18 PERCENT** ARE DEDICATED TO THEIR MOST CHALLENGING TASKS OF CASH APPLICATIONS AND CREDIT CHECKS, RESPECTIVELY.

THE DRIVE TO **AUTOMATE** AR PROCESSES

FIGURE 3:

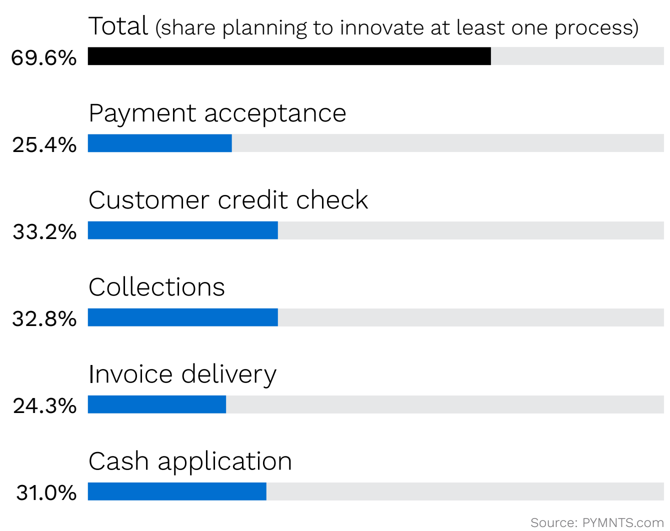
The benefits that firms willing to innovate their AR systems expect to obtain
Share of firms willing to innovate that expect select benefits from doing so

There is good news, despite all the financial uncertainties caused by the pandemic: The crisis has made firms aware of the negative effects of manual AR processes. Seventy percent of firms are looking to automate their AR functions. Approximately two-thirds of firms are moving away from manual processes and are planning to use technology solutions to upgrade their AR systems for faster processing (67.7 percent), higher efficiency (63.6 percent) and lower costs (60.2 percent), addressing what they consider to be their three main pain points. They are turning to technology to automate collections, customer credit checks, cash application and reconciliation. Firms that automate these AR processes will be in a better position to more easily adapt to changing market dynamics in the future.

Firms in technology, healthcare and construction seem to be the most progressive when it comes to implementing new technology and automating AR processes — firms from these sectors are the most likely to automate at least one AR process.

FIGURE 4:

AR processes targeted for innovation
Share of firms citing select processes as part of their innovation plans



FIRMS THAT HAVE IMPLEMENTED MORE TECHNOLOGY FOR AUTOMATING AR SEEM TO BE **BETTER AT MANAGING CASH FLOW.**

We also observe that 63.5 percent of firms are now shifting away from physical invoices, and 66.5 percent are receiving more payments digitally in their efforts to automate AR processes. Firms that have implemented more technology for automating AR seem to be better at managing cash flow as well. Our research shows that 81 percent of firms with high technological implementation are delivering more invoices digitally, and 83.1 percent are receiving more electronic payments now than they did before the pandemic began. These numbers are only 22.2 percent and 20 percent, respectively, for firms with no technology implementation, demonstrating the tremendous gap in performance between the two types of firms.

The pandemic has also prompted firms to modify the credit conditions they offer to their customers. Our research shows that 69.7 percent of firms that have a higher degree of AR automation in place have changed their payment terms since the pandemic began, and 57.1 percent have adjusted their credit limits. Only 31.1 percent of firms that lack automation have changed their payment terms and only 66 percent have adjusted their credit limits,

TABLE 3:

AR processes targeted for innovation
Share of firms citing select processes as part of their innovation plans, by size and sector

Most
Least

	Payment acceptance	Customer credit check	Collections	Invoice delivery	Cash application	TOTAL
REVENUE						
• Less than $50M	29.2%	32.6%	25.8%	27.0%	29.2%	**63.6%**
• $50M to $500M	23.0%	30.0%	**45.0%**	**20.0%**	32.0%	**72.5%**
• More than $500M	24.1%	38.0%	25.3%	26.6%	31.6%	**73.8%**
SECTOR						
• Healthcare	33.3%	9.5%	**47.6%**	33.3%	33.3%	**67.7%**
• Energy	21.2%	39.4%	30.3%	24.2%	21.2%	**60.0%**
• Construction	33.9%	30.4%	17.9%	32.1%	33.9%	**65.9%**
• Technology	23.7%	33.6%	38.2%	21.1%	23.7%	**80.4%**
• Advertising	**8.7%**	43.5%	21.7%	21.7%	8.7%	**51.1%**

Source: PYMNTS.com

however. This confirms that businesses with automated processes are in a better position to adjust their AR strategies when needed.

Invoice delivery and payment acceptance are the other key AR function areas where there is great interest in automation among firms that have low or no automation technology in place. Our results indicate that 54.8 percent of firms that currently employ low levels of technology and 41.7 percent of firms with no technology want to automate invoice delivery. These figures are 41.9 percent and 41.7 percent, respectively, for automating payment acceptance. Fifty-three percent of firms that plan to automate invoice delivery and 39 percent of those that will automate the payment function expect to achieve faster processes by doing so.

79%

OF ADVERTISING FIRMS HAVE AUTOMATED THEIR PAYMENT ACCEPTANCE TOOLS.

Interest in using technology for invoice delivery and payment acceptance is relatively low, by contrast, among firms in the advertising, technology and energy sectors, as there is already a high degree of automation for these two functions in place. Seventy-nine percent of advertising, 69 percent of technology and 68 percent of energy firms use automated tools for payment acceptance, while 83 percent of advertising and 76 percent of technology and energy firms do so for invoice delivery.

Firms that utilize a high degree of automation for managing AR processes naturally enjoy shorter DSO, as they do not have to struggle with the challenges associated with manually managing AR processes. The DSO of a firm with no or low levels of technological implementation for managing AR is 52 days, which is 12 days longer than the DSO for firms with moderately to highly automated AR processes. Firms that have longer-than-average DSO often struggle because of their inability to follow up quickly on overdue payments and their longer payment terms. The average term for firms with no or very little automation is 31 days, and such firms take an additional 24 days to follow up on late payments. Firms that have moderately to highly automated AR processes, meanwhile, have an average term of 24 days and take only 16 days to follow up.

Businesses that are seeking to reduce their DSO will benefit from automating processes such as tracking collections activities and following up on late payments.

THE C-SUITE **CHECKLIST**

Finance leaders should focus on the following key areas to navigate cash flow challenges posed by the pandemic:

- [ ] **ELIMINATE MANUAL PROCESSES.**
Stay-at-home orders issued during the pandemic mean that firms must aim to eliminate manual processes as they seek to iron out frictions in their accounts receivable processes.

- [ ] **SHIFT AWAY FROM PHYSICAL INVOICES.**
Digital invoices lead to more digital payments, eliminating the manual errors that may come with handling physical invoices.

- [ ] **ADOPT AUTOMATION FOR FLEXIBLE CREDIT CONDITIONS.**
The pandemic is forcing firms to modify the credit conditions they offer to customers. Implementing technology that easily allows the adjustment of these conditions can help prepare firms for changing market dynamics.

- [ ] **USE DSO AS A WAY TO GAUGE AUTOMATION.**
A short DSO cycle is a great indicator of a highly automated AR process. Firms that are successful in reducing their DSO stand to improve their cash flow and long-term success.

- [ ] **PRIORITIZE YOUR DIGITAL TRANSFORMATION.**
Know that automation does not have to be all-or-nothing in moving away from manual processes. Businesses must prioritize how they address their biggest payment pain points so they can kick off their digital journeys at their own pace.

B2B PAYMENTS INNOVATION READINESS

CONCLUSION

Our research confirms that AR processes have been negatively impacted by the pandemic and that firms that deploy technology in these processes are more prepared to adapt to the economic changes they face today. Cumbersome, manual processes no longer work and are in fact having a negative ripple effect, impairing the speed and efficiency of AR functions such as invoicing, performing customer credit checks and collecting and matching receivables, all resulting in longer days sales outstanding. These negative effects are also costing firms money via inefficiencies and delayed payments. Firms that embrace technology stand to improve the efficiency of AR processes, especially those that can no longer be handled in an office environment during the pandemic. Sectors where technology adoption is less prevalent have been hit more severely than those where technology is used for AR processes. Automated invoice delivery and payment acceptance processes can help firms quickly react and become more resilient to future challenges.

METHODOLOGY

The B2B Payments Innovation Readiness Playbook: Adapting To Cash Flow Challenges Posed By The Pandemic, a collaboration with American Express, draws from a survey of 2,203 small to large businesses from numerous sectors, including those representing the advertising, technology, construction, energy and healthcare industries, for which sales to other businesses account for at least 75 percent of their total revenues and for which at least 20 percent of sales are made on terms. We disqualified 1,096 responses from businesses that did not meet the criteria and eliminated 328 partial responses and 319 inconsistent responses.

ABOUT

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