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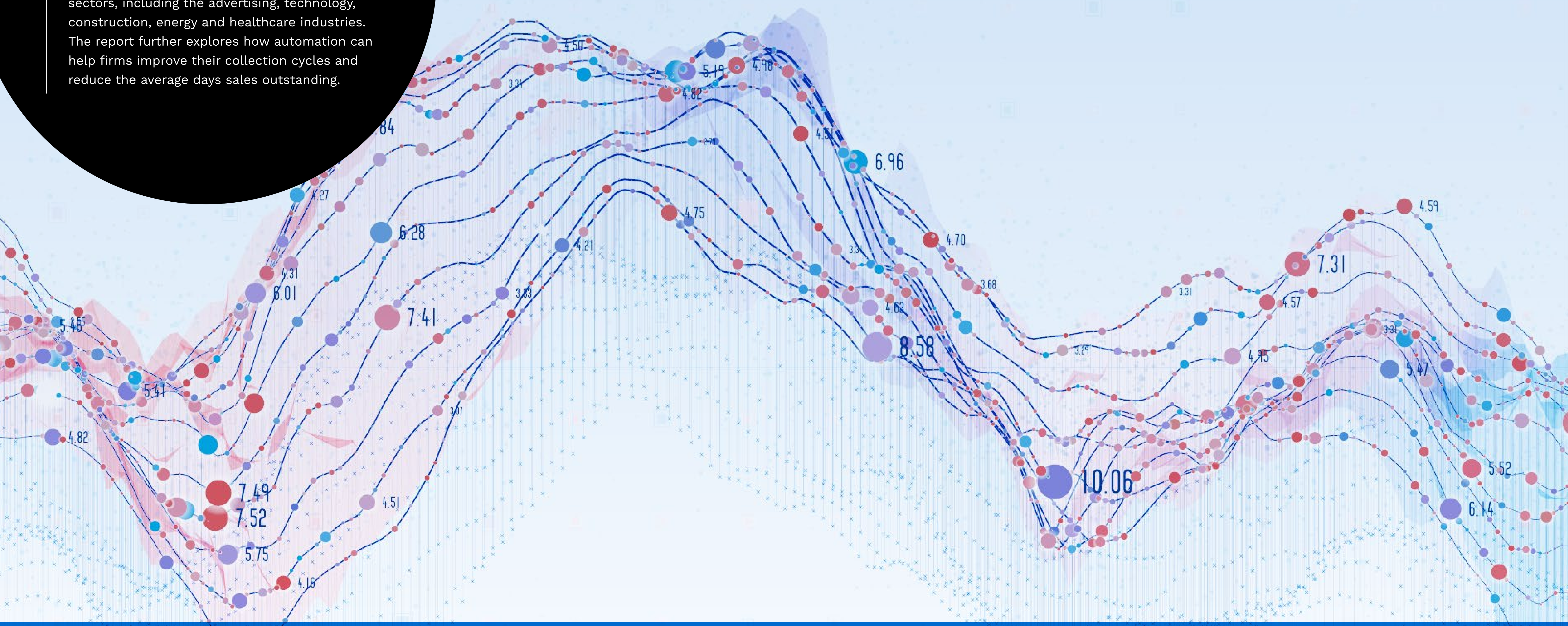
B2B PAYMENTS INNOVATION READINESS PLAYBOOK

The B2B Payments Innovation Readiness Playbook: The Business Case For Automating AR Processes, a PYMNTS and American Express collaboration, analyzes the survey responses of 460 small to large businesses to understand how manual processes impact accounts receivables 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.



THE BUSINESS CASE FOR **AUTOMATING AR PROCESSES**

PYMNTS.com | AMERICAN EXPRESS

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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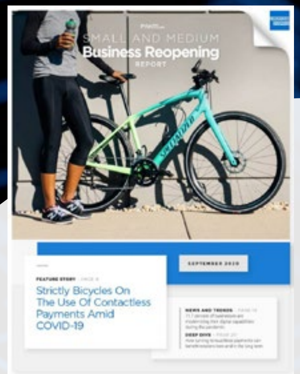

Small And Medium Business Reopening Report

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B2B Payments Innovation Readiness Report

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2021 New Merchant Business Models Playbook

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DECEMBER 2020

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INTRODUCTION

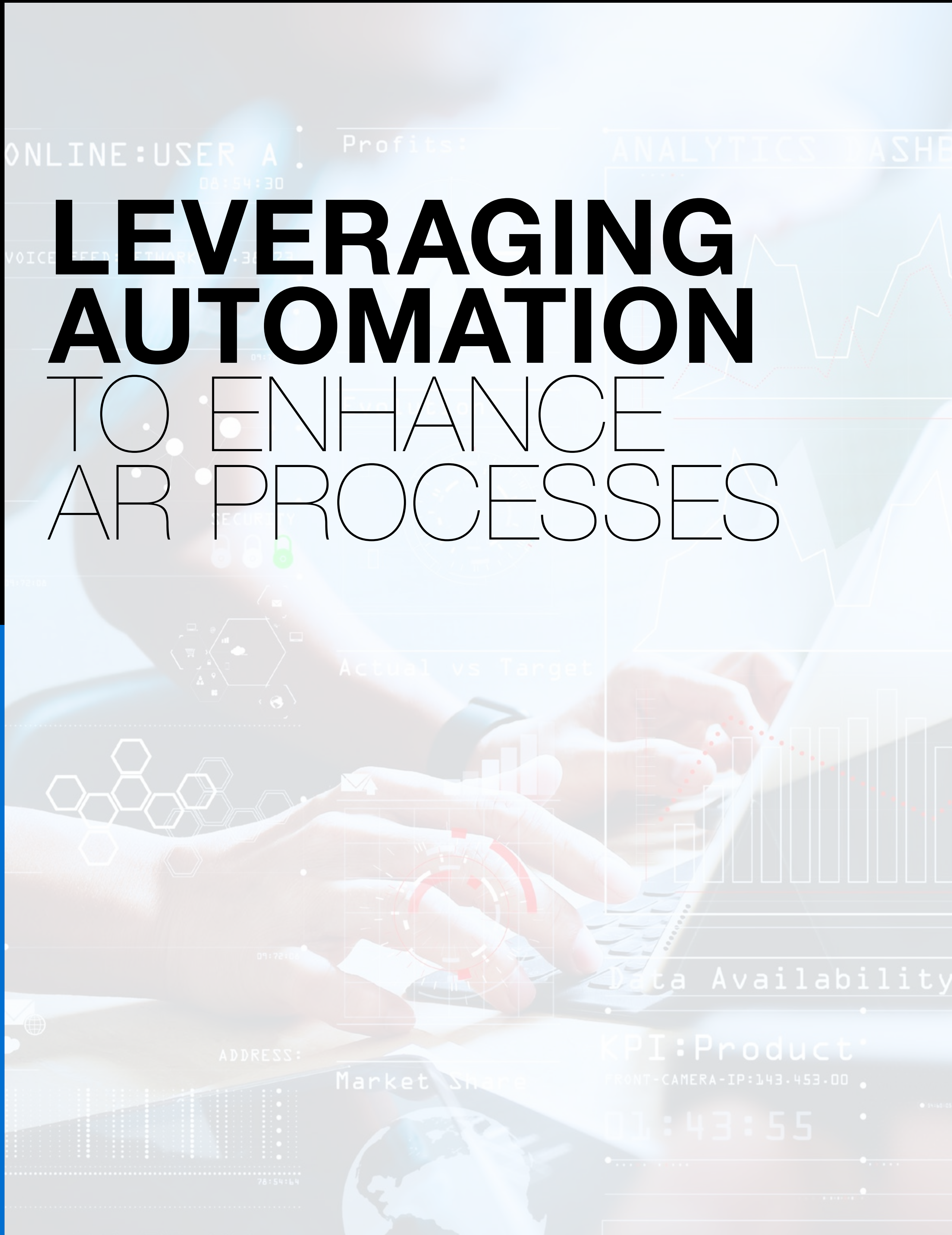
Businesses have long turned to cutting-edge technologies to streamline their customer-facing applications and services, but too many firms are stuck in the past when it comes to the back office. Companies' accounts receivable (AR) processes can particularly suffer from complex workflows and cumbersome legacy operations as many businesses simply accept their softwares' limits or task employees with juggling various applications and platforms to reconcile invoices.

Manual AR processes are steadily losing their hold on business-to-business (B2B) firms as such companies seek digital solutions that can drive efficiencies and reduce costs, however. The pandemic is also fueling this evolution as more companies are realizing that their manual AR operations are no longer feasible given the realities of operating in a virtual work environment. AR functions that were once conducted with ease in physical offices must now be accomplished remotely, posing unique challenges for the 49 percent of firms that continue to rely on manual processes and are now more incentivized to make the digital leap.

What benefits can businesses gain from investing in digital technologies to automate their AR operations, and what else must they do to ensure that their processes can handle payments reconciliation in the new virtual work ecosystem?

The B2B Payments Innovation Readiness Playbook: The Business Case For Automating AR Processes, a PYMNTS and American Express collaboration, explores how new technologies can help firms manage an ever-changing payments landscape in which crucial AR functions must be executed swiftly and effortlessly. The Playbook draws from a survey of 460 treasury executives from AR, billing, cash application, credit, collections and treasury management departments. Surveyed executives hailed from the advertising, technology, construction, energy and healthcare sectors, and respondents were evenly distributed among companies with annual revenues of less than $50 million, those with revenues between $50 million and $500 million and those with more than $500 million in yearly revenues.

The Playbook delves into the benefits of automating AR processes and provides a roadmap that can guide businesses toward realizing automation's benefits while also helping them identify the investments that make the most sense for their organizations.

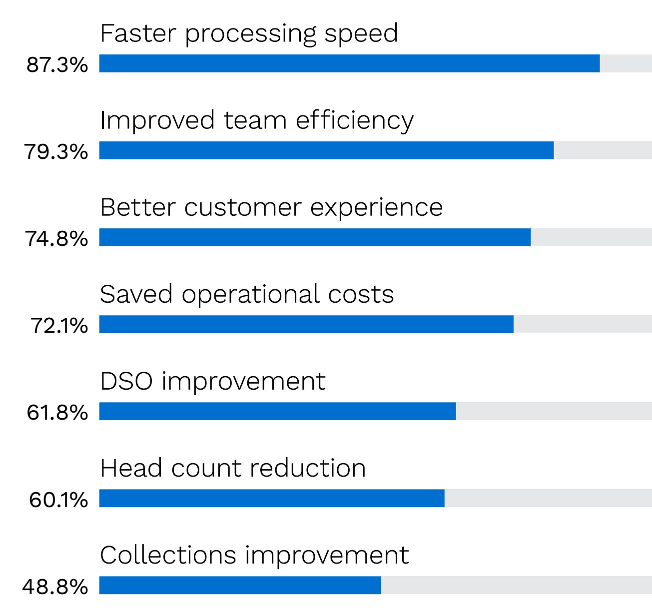


LEVERAGING AUTOMATION TO ENHANCE AR PROCESSES

Manual AR processes create several significant pain points for businesses, including slower operations and increased costs. The pandemic is amplifying these problems as firms struggle to reconcile their invoices and minimize their own cash flow crunches. Investments in automation can alleviate many of these issues, however. Our research finds that 87 percent of firms that have automated AR functions enjoy faster processes. Seventy-nine percent of businesses indicate that automation allows them to improve team efficiency and 75 percent say that it helps them provide superior customer experiences.

FIGURE 1:

Realized AR benefits from technology
Share of firms' realized benefits from technology, by AR category



Noteworthy differences exist in the extent to which businesses from different sectors benefit from AR automation, however, with energy, advertising and technology firms experiencing the greatest overall gains. Energy firms have realized particularly significant benefits: 95 percent report improvements in overall process speed and 88 percent cite optimized efficiency. Eighty-one percent of these firms note that AR automation has enhanced customer experience and 77 percent of technology and advertising companies say the same. Automated AR processes can result in improved customer experiences because they enable firms to demonstrate quicker reaction times to invoicing and emphasize their agility. Advertising and energy firms also are also likelier to see improvements in their collection processes, with 71 percent of the former and 69 percent of the latter reporting that automation benefited them in this regard.

DSO (days sales outstanding) improvement is another key benefit that AR automation imparts as implementing these technologies allows firms to better manage their cash flows by accelerating the time between the delivery of goods or services and payment receipt. Energy and advertising firms have benefited especially well when using automation in this area, with 88 percent of the former and 87 percent of the latter experiencing shorter DSO cycles. Firms in industries that are likelier to have implemented few or no technologies are much less likely to list DSO improvement as a benefit of automation. Just 52 percent and 38 percent of construction and healthcare businesses, respectively, cite DSO improvement as an advantage realized from implementing AR automation.

TABLE 1:

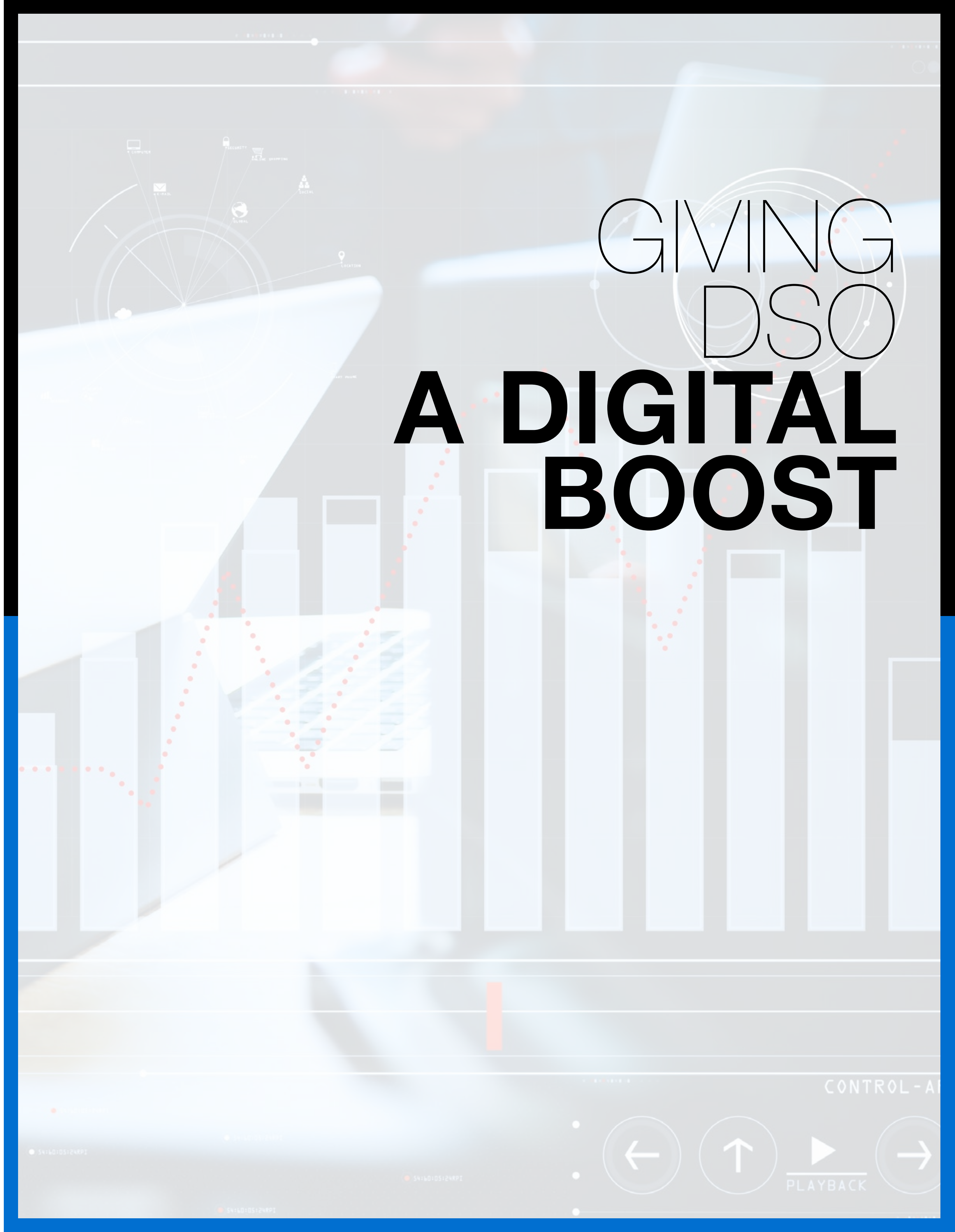
Realized AR benefits from technology

Share of firms' realized benefits from technology, by AR category and sector

Least trouble
Most trouble

	Advertising	Technology	Construction	Energy	Healthcare
• Faster processing speed	90.3%	88.3%	77.5%	**94.8%**	85.3%
• Improved team efficiency	83.9%	79.3%	76.1%	87.9%	70.6%
• Better customer experience	77.4%	77.0%	71.8%	81.0%	64.7%
• Saved operational costs	61.3%	77.0%	71.8%	72.4%	73.5%
• DSO improvement	87.1%	55.0%	52.1%	87.9%	38.2%
• Head count reduction	72.6%	59.9%	56.3%	67.2%	50.0%
• Collections improvement	71.0%	43.2%	38.0%	69.0%	**26.5%**

Source: PYMNTS.com



GIVING DSO A DIGITAL BOOST

FIRMS THAT HAVE IMPLEMENTED FEW OR NO TECHNOLOGIES, ESPECIALLY THOSE IN HEALTHCARE AND CONSTRUCTION, ARE FACING AN INCREASE IN DSO.

AR teams are highly focused on reducing DSO, and our research shows that investments in automation technology are a key factor in helping them improve their DSO cycles. The average DSO among firms that have automated the payment acceptance process is 40 days, for example, while the average DSO of those that have automated their invoice delivery processes is 41 days. Firms that have not invested in any automations have an average DSO of 47 days.

The pandemic has made the automation stakes even higher for firms. Those that have implemented few or no technologies have faced significant DSO increases, and this trend is especially evident in the construction and healthcare sectors. Construction companies that leverage few or no automation technologies have experienced average DSO increases of 20 percent from before the pandemic's onset while healthcare companies reported an average increase of 17 percent. This suggests that automation implementation can have a significant positive effect on firms' cash flow management operations, especially as virtual work is likely to remain a reality for some companies after the pandemic has passed.

Somewhat surprisingly, advertising firms that have implemented few or no automation technologies saw their average DSO decrease 26 percent. This could be because the use of automation is already high in the advertising sector: 79 percent of these businesses use automated tools for payment acceptance and 83 percent tap them for invoice delivery.

FIGURE 2:

How select streamlined or automated AR processes affect DSO
Average DSO, by streamlined or automated AR processes

Source: PYMNTS.com

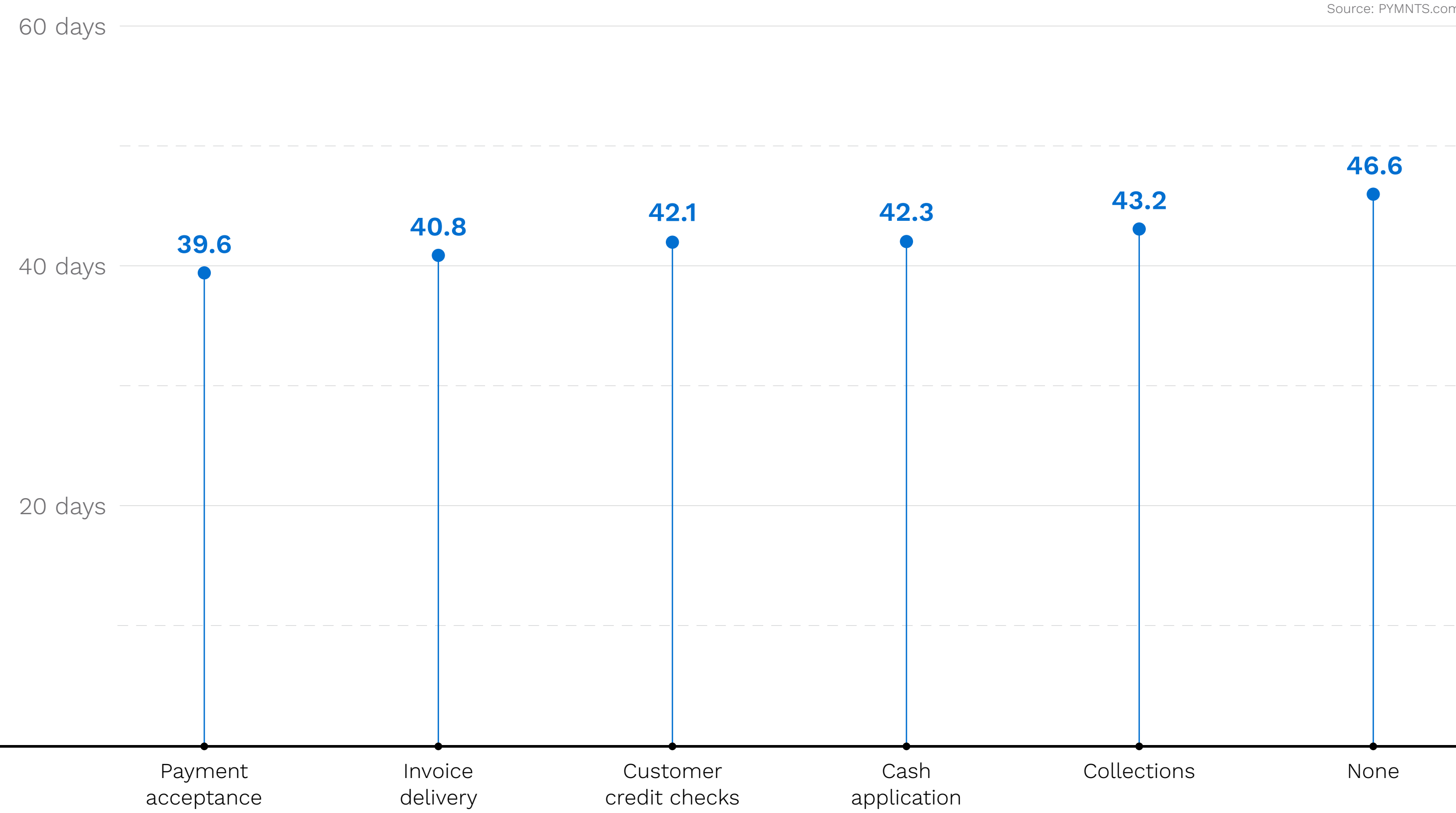
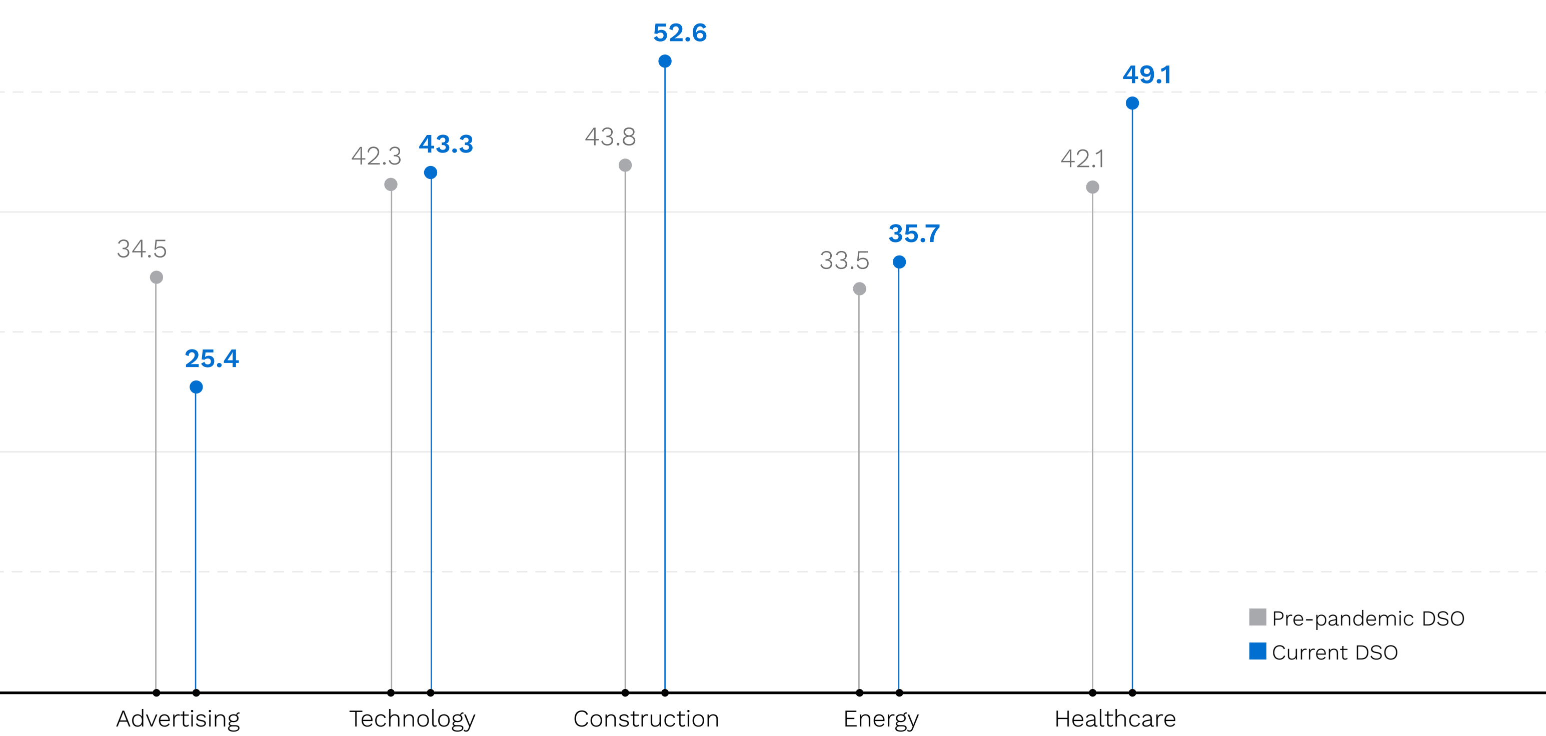


FIGURE 3:

Shifts in firms' DSO across industries
Pre-pandemic and current DSO for firms that have implemented few or no technologies, by industry

Source: PYMNTS.com



TAKING A TECHNOLOGY-FIRST APPROACH TO **INVOICE MANAGEMENT**

AUTOMATION TOOLS CAN HELP FIRMS BETTER MANAGE THE INEFFICIENCIES ASSOCIATED WITH HEAVY INVOICING WORKLOADS. THIS TREND IS BROADLY OBSERVED ACROSS ALL BUSINESSES BUT IS MOST NOTABLE FOR THOSE THAT PROCESS THE GREATEST AND SMALLEST NUMBERS OF INVOICES.

One of the most effective investments firms can make to improve their DSO is to implement technologies that automate invoicing. Our research shows that businesses handling more than 20,000 invoices per month that use automated invoice delivery tools have DSO averages up to 23 days shorter than those that rely on manual, paper-based processes. Even firms with smaller invoice volumes benefit from automation, enjoying DSO marks that are as much as 15 days shorter than those that have invested in few or no technologies.

BUSINESSES THAT HANDLE MORE THAN 20,000 INVOICES PER MONTH AND HAVE AUTOMATED INVOICE DELIVERY TOOLS HAVE **DSO AVERAGES UP TO 23 DAYS SHORTER THAN THOSE THAT USE MANUAL PROCESSES.**

29 DAYS

AVERAGE DSO FOR FIRMS WITH HIGH LEVELS OF AUTOMATION THAT DELIVER BETWEEN 500 TO 1,000 INVOICES PER MONTH **COMPARED TO AN AVERAGE DSO OF 44 DAYS** FOR FIRMS WITH LITTLE OR NO AUTOMATION.

PYMNTS' research shows that businesses that deliver between 500 and 1,000 invoices per month have an average DSO of 32 days. Firms within this segment that have little or no automation have an average DSO of 44 days while the average DSO is just 29 days for those with high levels of automation.

FIGURE 4A:

How workload affects DSO
Firms' average DSO, by monthly invoices delivered

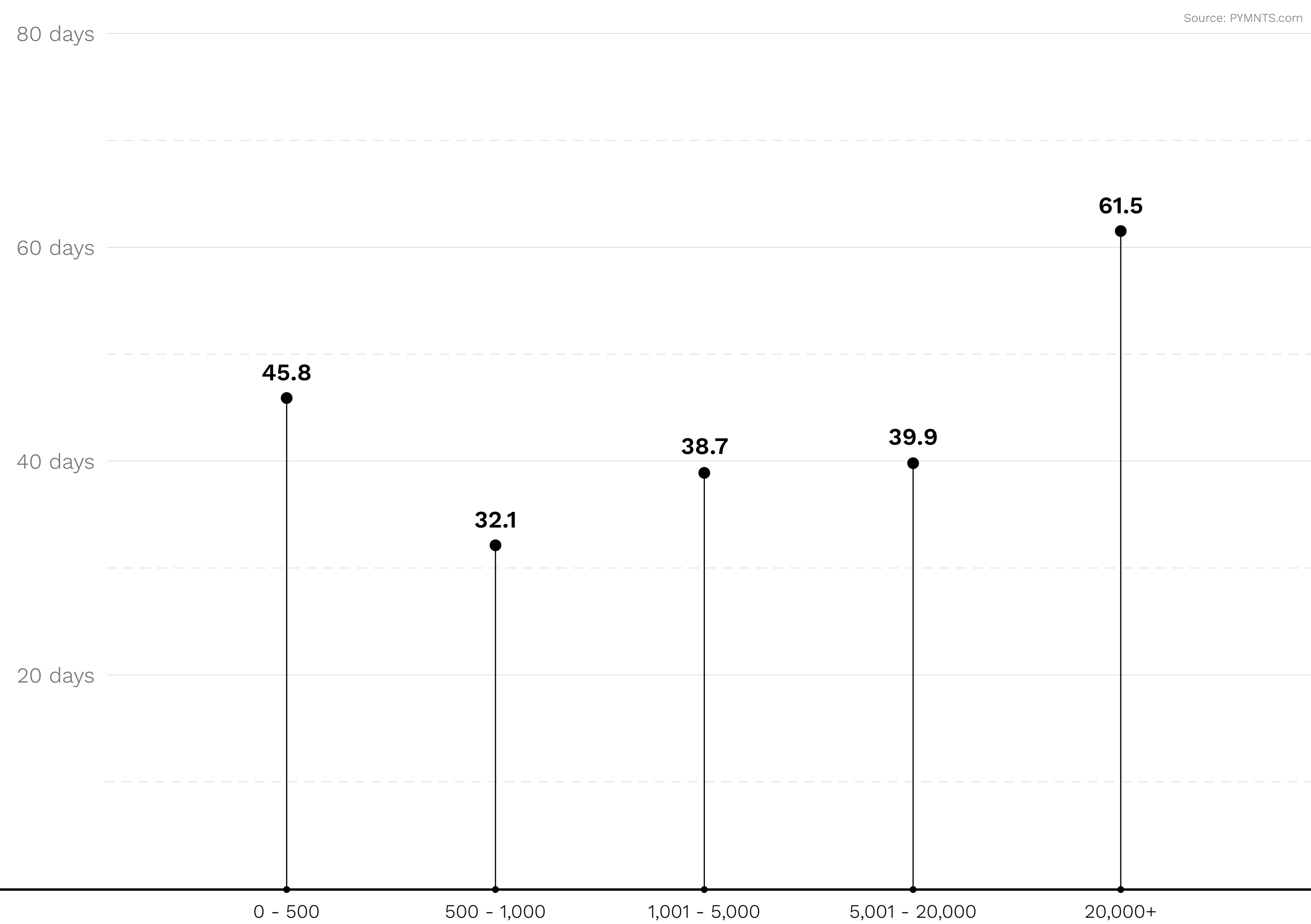
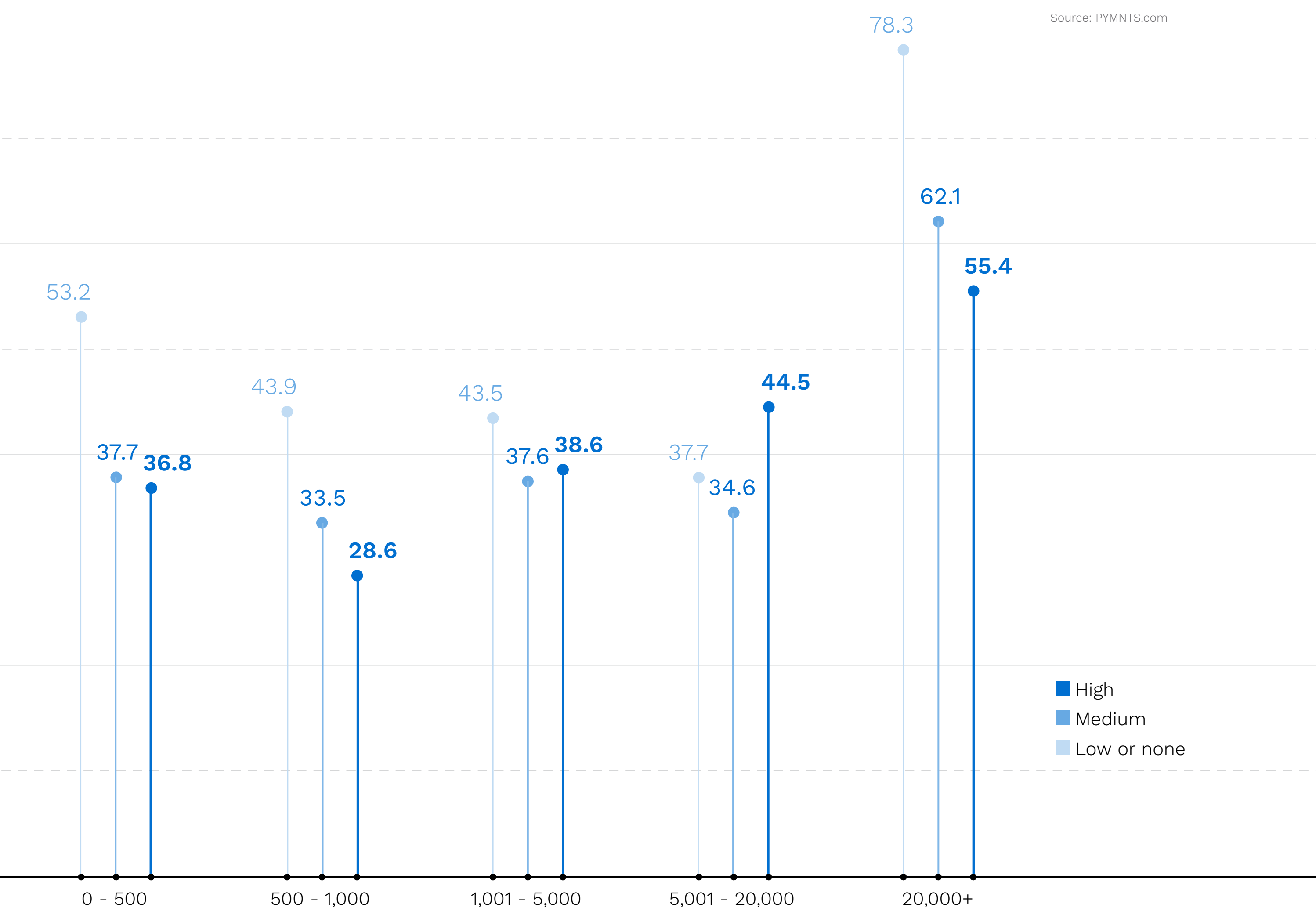


FIGURE 4B:

How workload affects DSO
Firms' average DSO, by monthly invoices delivered and technological implementation level



THE C-SUITE CHECKLIST

How finance leaders must approach AR automation

- [ ] **PRIORITIZE DIGITAL TRANSFORMATION.**
The pandemic has exacerbated manual AR processes' inefficiencies. Firms must set goals to eliminate manual AR processes, continue the digital transformation of their current operations and identify and adjust the most painful processes first to optimally lower costs.

- [ ] **AIM FOR EFFICIENCY.**
Firms that have already automated their AR processes have achieved faster processes, improved efficiencies and lower costs for their AR operations. Firms that are looking to automate AR processes should keep these goals in mind.

- [ ] **AUTOMATE INVOICING.**
Automation technologies can help manage heavy invoicing workloads during the pandemic.

- [ ] **USE TECHNOLOGY TO REDUCE DSO.**
Automating AR processes can shorten DSO cycles and help businesses get paid sooner, improving overall cash flows.

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CONCLUSION

The pandemic has exacerbated the challenges associated with manual AR processes, but our research reveals that firms can integrate automation into their operations to better adapt to the economic changes and challenges that businesses face today. Industries that have not been as progressive about implementing technology in their AR processes have been hit harder by the health crisis than those that have invested significantly in automation. Sluggish, manual AR processes hinder the speed and efficiency of AR functions such as invoicing, customer credit checks and the collection and reconciliation of receivables, ultimately resulting in longer DSO measurements and reduced net revenues due to AR management inefficiencies and delayed payments.

Firms that have automated their AR have mitigated these issues, achieving faster processes, improved efficiencies and lower costs. These benefits are particularly evident now as tasks previously handled in offices are being managed remotely by a virtual workforce. Automating certain processes, especially invoice delivery and payment acceptance, tends to be notably successful in reducing DSO. Finance leaders who are championing automated AR processes within their organizations must determine how to invest in these crucial technologies that can reduce costs, lower DSO averages and make their organizations more resilient to future cash flow challenges.

METHODOLOGY

The B2B Payments Innovation Readiness Playbook: The Business Case For Automating AR processes, a collaboration with American Express, draws from a survey of 2,203 small to large businesses from numerous sectors, including 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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PYMNTS.com is where the best minds and the best content meet on the web to learn about "What's Next" in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.

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