■ MARCH 2021

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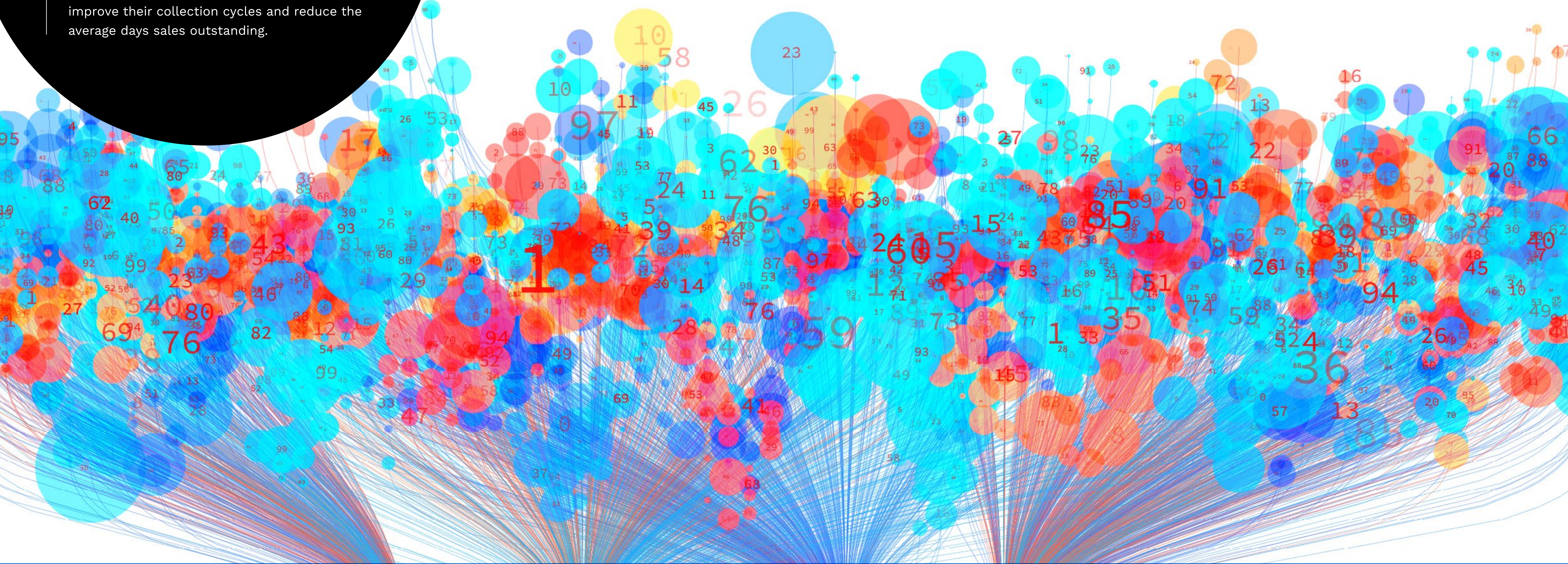
B2B PAYMENTS INNOVATION READINESS PLAYBOOK

The B2B Payments Innovation Readiness Playbook: The Impact Of Automated AR Processes On Collection Cycles, 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.



THE IMPACT OF AUTOMATED AR PROCESSES ON **COLLECTION CYCLES**

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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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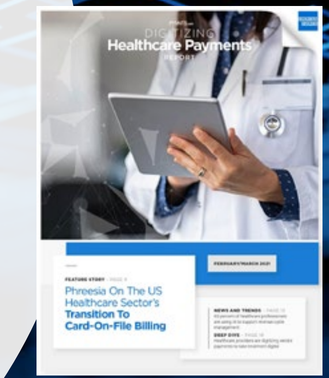

Digitizing Healthcare Payments Report

MARCH 2021

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INTRODUCTION

The United States and Canada accounts receivable (AR) team for Paris-based food and beverage company Danone was experiencing challenges with cash application and a lack of visibility into its cash flow — especially its collections processes. These were big problems for a company with more than 1,000 distributors across the two nations. Its credit evaluation, cash application and collections-related processes were managed internally and required a high degree of manual intervention. The system it had in place even required electronic remittances to be downloaded by analysts and processed manually.

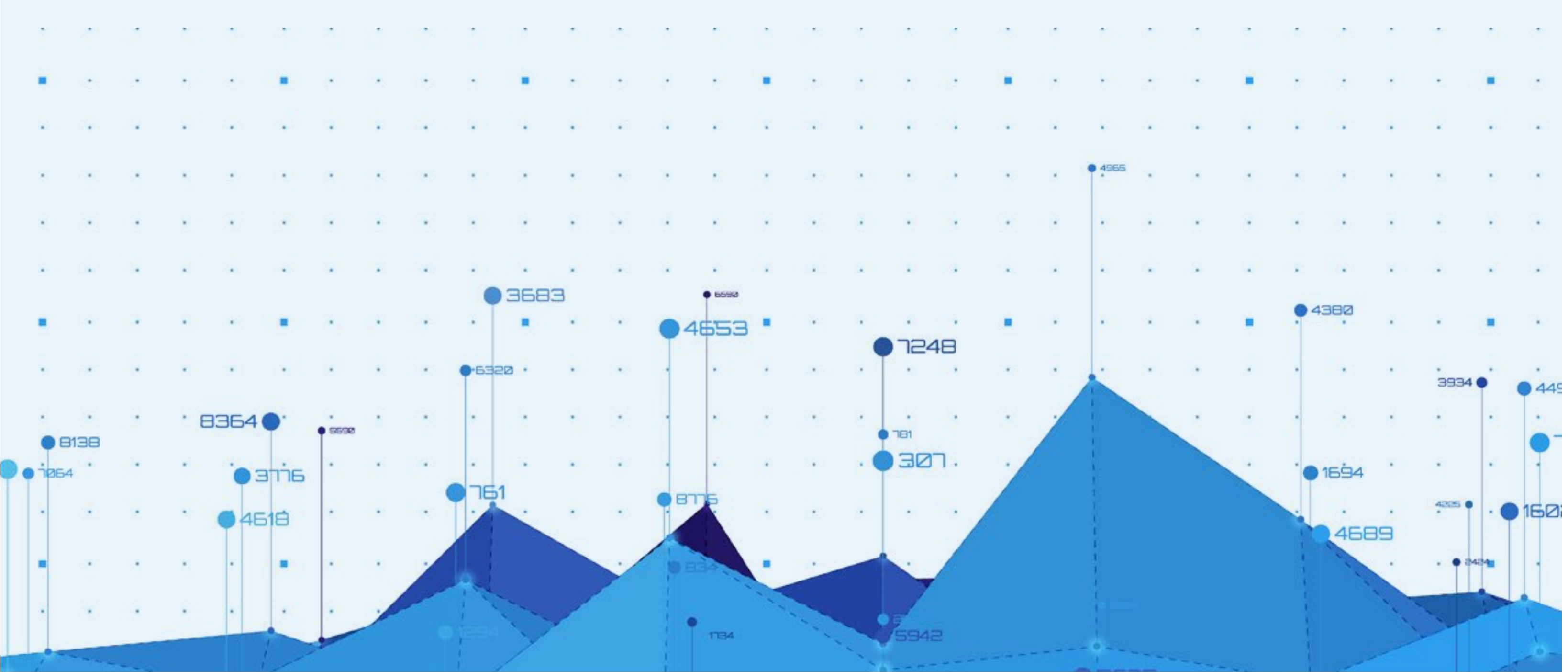
Danone ultimately decided that it needed a streamlined approach that would help it reduce redundancies, save time and offer better experiences for its customers. This led the company to automate its AR operations, including its remittances, customer deduction codes and collection claims, to optimize its collections processes and significantly improve its overall productivity.[1]

Danone is far from the only company to see significant benefits after automating its AR operations. A growing amount of data reveals that automating AR can have far-reaching positive impacts on firms' collections processes. Recent PYMNTS research found that firms using automated AR technologies stand to observe a 23 percent improvement in prioritizing collections compared to those that use manual methods, for example. This, in turn, helps the firms improve their cash flows, which results in improved business relationships.

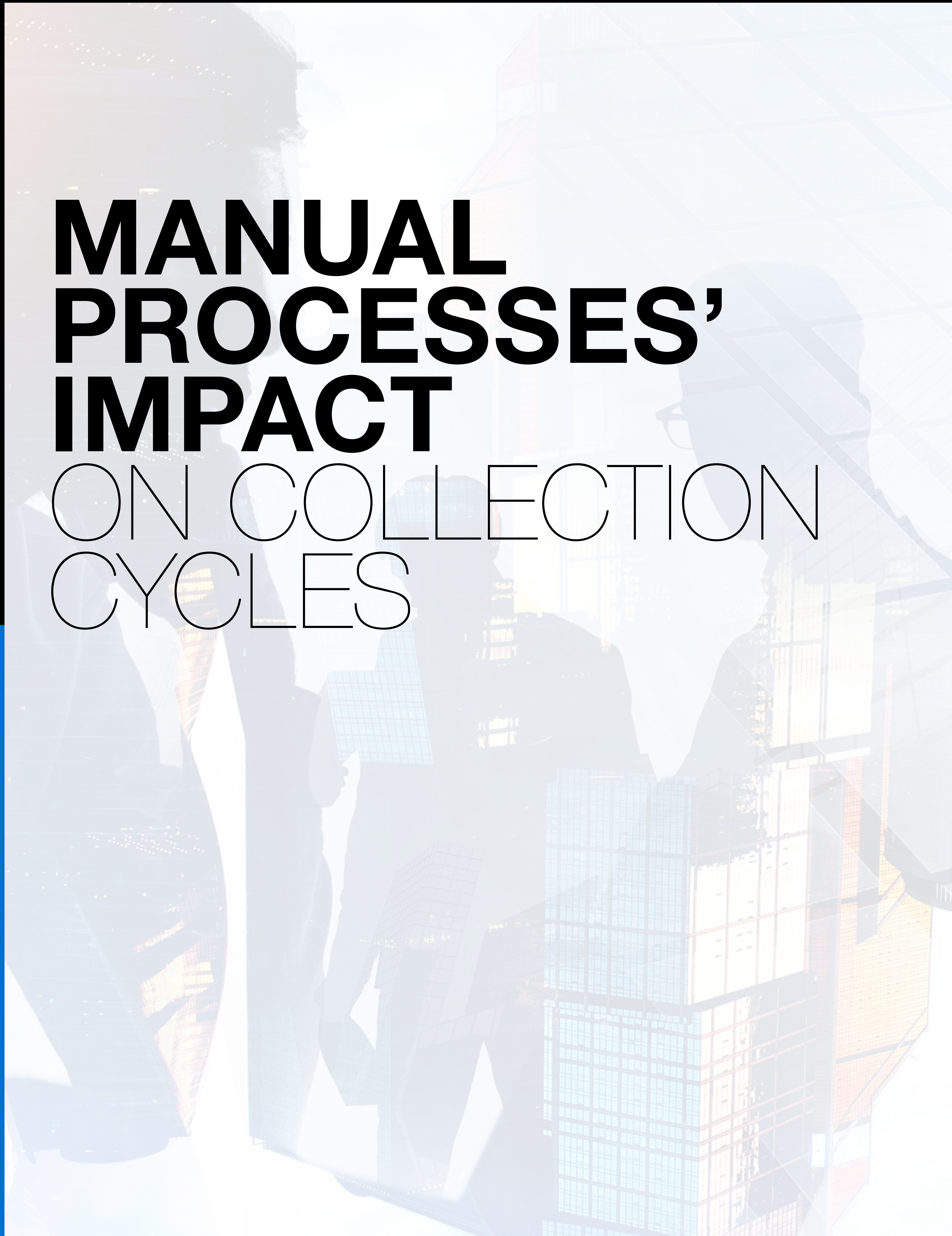
Many businesses are unfortunately still relying on manual AR processes — albeit to varying degrees — and this can slow their collections processes. This is especially true for firms in the construction and healthcare spaces, which are more reliant on manual methods that result in longer collection cycles. Healthcare firms take an average of 25.3 days to follow up on late payments, while construction firms take an average of 22 days to do so. Those values are 43 percent and 24 percent above the average for all firms, respectively.

The B2B Payments Innovation Readiness Playbook: The Impact Of Automated AR Processes On Collection Cycles edition, a PYMNTS and American Express collaboration, examines how implementing technology in AR processes can help firms get paid earlier and reduce their delinquency rates. The Playbook analyzes the survey responses of 460 businesses of all sizes to understand how manual processes affects payment collection cycles for firms across various sectors, including the advertising, construction, energy, healthcare and technology industries.

This is what we learned.



[1] Author unknown. Learn How Danone Cut Cash Application Costs By 75% Using AI. HighRadius Corp. https://www.highradius.com/resources/Blog/learn-how-danone-cut-cash-application-costs-by-75-using-ai/. Accessed March 2021.



MANUAL PROCESSES' IMPACT ON COLLECTION CYCLES

MANUAL AR PROCESSES LEAD TO INEFFICIENT PAYMENT ACCEPTANCE AND CREDIT ASSESSMENT, WHICH ULTIMATELY RESULTS IN A SLOWER COLLECTIONS PROCESS.

Payment acceptance is a key step in the AR process, and the use — or absence — of automation in this area can significantly impact the length of firms' average payment terms. Firms that have failed to integrate technology for payments acceptance have terms that are almost 18 percent longer than firms that have automated in this area, according to PYMNTS' research. The average payment term for firms that have not automated this process is 28 days, but the corresponding figure is just 23 days for those that have. These findings illuminate a simple but powerful truth: Automated acceptance means firms get paid faster.

The credit check process is another area in which firms can benefit from automation. Those that automate these processes offer 20 percent shorter payment terms than those that use manual methods, for example. This is because businesses that rely on manual tools to perform credit checks are often ensnared in a cycle of delayed payments, which lengthens their days sales outstanding (DSO) and hinders their ability to maintain steady cash flows.

Our research shows that implementing automation and other modern technologies in various steps of the AR process can improve collections. Firms that use automated methods to manage collections take 17 days to follow up, yet firms that rely on manual methods take 19 days. This proves that investing in automated tools is beneficial for firms in the long run, as it can shorten their overall payment cycles and allow them to get a better handle on their cash flows.

FIGURE 1:

Firms' average payment term lengths for select AR processes
Average payment term length, by whether technology is implemented in the credit check process

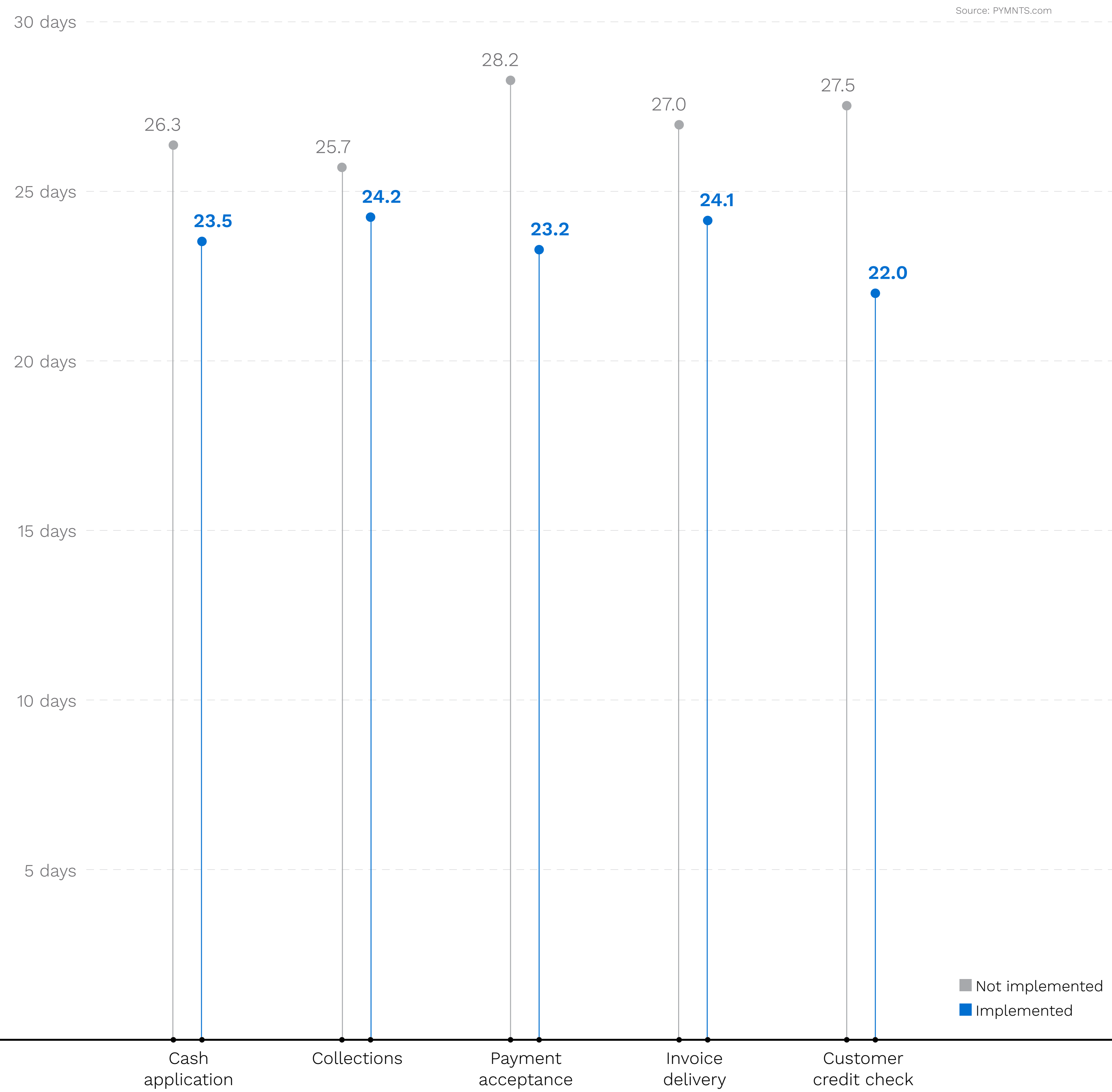
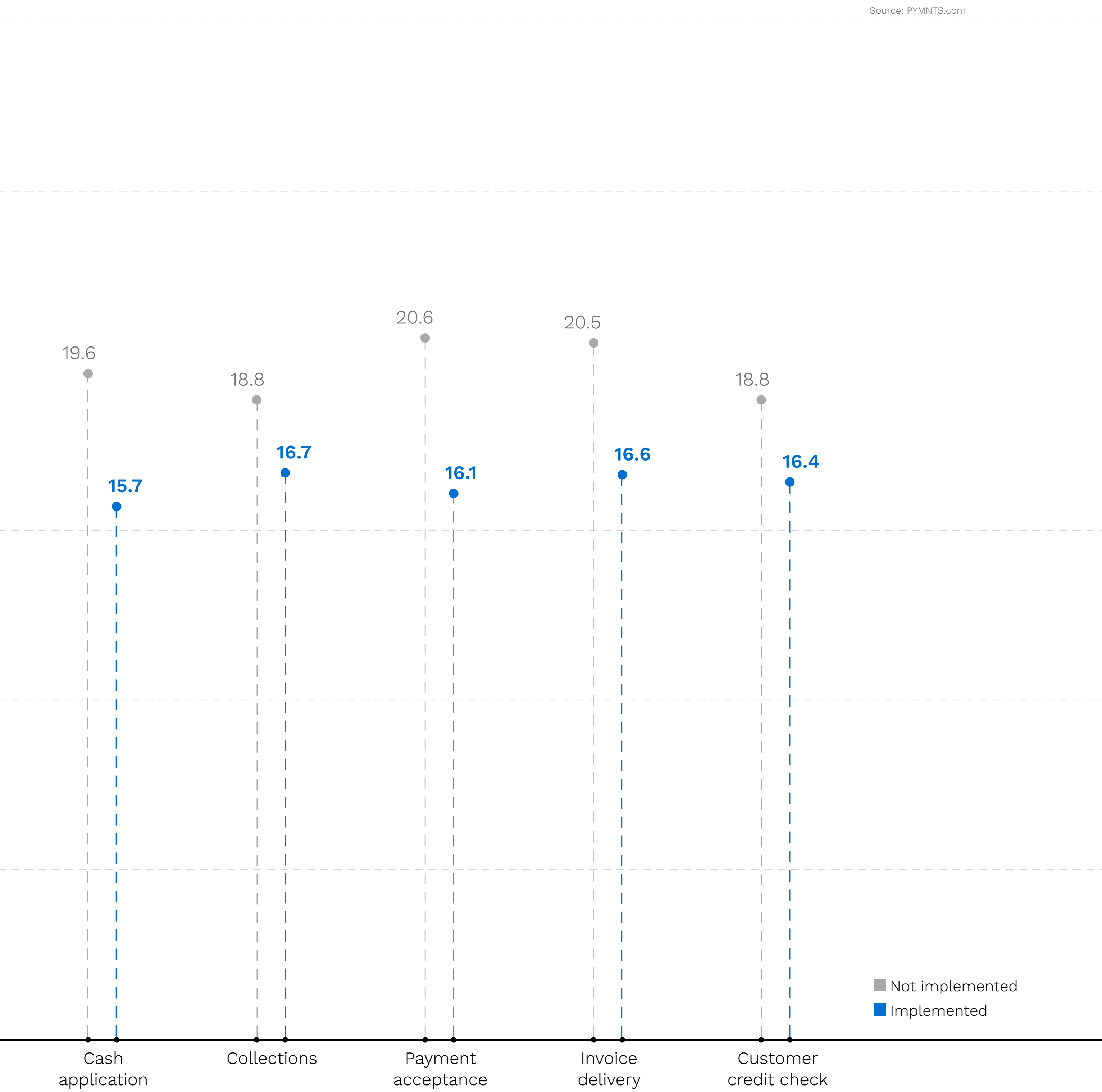


FIGURE 2:

Firms' average follow-up terms for select AR processes
Average delay to follow-up, by whether firms implement technology in select AR processes



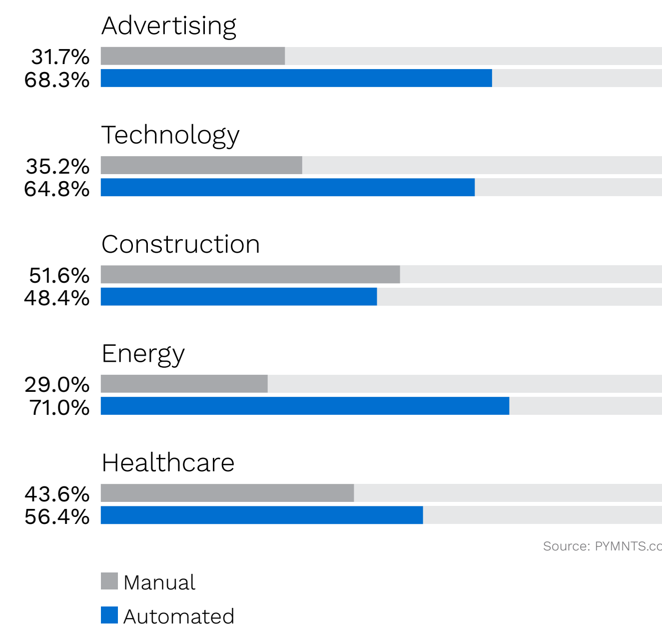
WHERE BUSINESSES **STAND**

BUSINESSES IN THE CONSTRUCTION AND HEALTHCARE SPACES ARE PARTICULARLY PRONE TO EXPERIENCING LONGER COLLECTION CYCLES, AS ABOUT HALF OF ALL FIRMS IN THESE INDUSTRIES USE AUTOMATION TO MANAGE COLLECTIONS.

The adoption and use of automated AR tools vary across business sectors, but firms in the healthcare and construction spaces often have fewer automated processes in place, ultimately lengthening their collection cycles. This contrasts with energy and technology firms, which are typically more aggressive about implementing automation and thus experience more efficient collection processes and shorter DSO cycles.

FIGURE 3:

How firms prioritize their collection efforts
Share of firms using manual vs. automated processes, by sector



52%

OF CONSTRUCTION FIRMS PRIORITIZE THEIR COLLECTION PROCESSES MANUALLY, COMPARED WITH JUST **29 PERCENT** OF ENERGY COMPANIES.

Our research reveals that 48 percent of construction and 56 percent of healthcare firms use technology to prioritize collections, compared with 71 percent and 68 percent of firms in the energy and advertising industries, respectively. Fifty-two percent of construction firms and 44 percent of those in the healthcare sector prioritize their collections through manual methods, in turn creating inefficiencies that result in longer DSO cycles. Healthcare firms take 25 days to follow up on average, and construction firms take 22 days, 43 percent and 24 percent above average, respectively.

There are a multitude of reasons for these firms to prioritize AR automation. Healthcare firms have faced particularly onerous operational strains during the pandemic as they hustled to offer remote services and reconcile traditionally manual payment processes while many of their employees began to work from home. They must also meet numerous vendor payment obligations while managing these payment flows. Ori Franco, chief financial officer at digital healthcare services provider Nurx, recently told PYMNTS that firms in the space are digitizing their payments, reconciliation efforts and other back-office processes to address these issues, highlighting how critical AR automation has become in the current healthcare climate.[2]

Business sectors that are further along in adopting technology, on the other hand, enjoy smoother collections environments. Case in point: Technology firms take 19 days to follow up on collections, whereas energy firms take 12 days and advertising businesses take only 11 days. This means that energy and advertising DSO processes are 36 percent and 37 percent shorter, respectively. The differences illustrate that firms in the healthcare and construction sectors have much to gain from automating their collections efforts, including more visibility into their finances and smoother cash flows.

[2] Healthcare's Back Office Catches Up To The Industry's Digitization Push. PYMNTS.com. 2021. https://www.pymnts.com/news/b2b-payments/2021/healthcare-back-office-digitization-push/. Accessed March 2021.

CONSTRUCTION FIRMS TAKE **25 DAYS** ON AVERAGE TO FOLLOW UP ON LATE PAYMENTS, WHEREAS ADVERTISING COMPANIES TYPICALLY TAKE JUST **11 DAYS.**

TABLE 1:

Average overdue limits for follow-up, DSO and term length
Average number of days to follow up on late payments, days sales outstanding and term length of payment cycles, by category

Shortest
Longest

	Average overdue limit for follow-up (days)	Days sales outstanding	Average term length
AVERAGE	**17.7**	**42.5**	**25.2**
REVENUE			
• Less than $50M	18.7	38.2	25.5
• $50M to $500M	15.1	41.8	26.2
• More than $500M	19.7	48.1	23.7
SEGMENT			
• Healthcare	25.3	49.1	26.4
• Energy	12.2	35.7	25.9
• Construction	22.0	52.6	30.4
• Technology	19.0	43.3	22.3
• Advertising	10.9	36.7	25.4

Source: PYMNTS.com

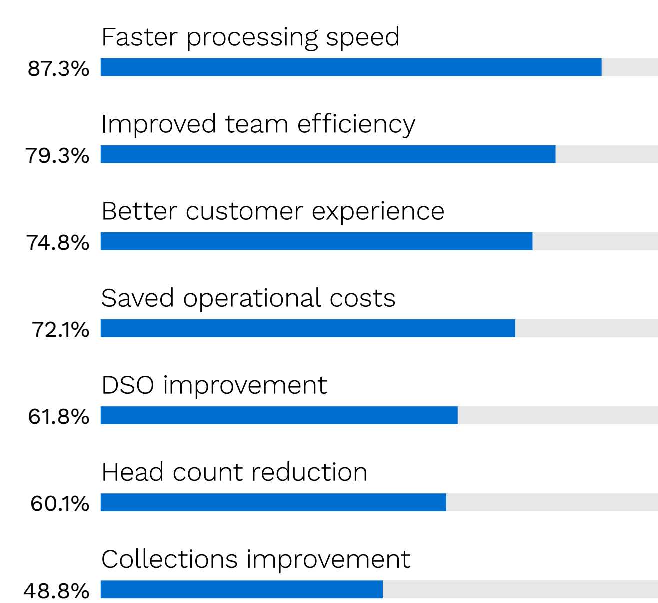
MEASURING AUTOMATION'S **IMPACTS**

AR AUTOMATION REDUCES DSO AND ALSO RESULTS IN FEWER DELINQUENCIES.

PYMNTS' research found that 62 percent of the firms that adopted automated AR processes benefited from improved DSO and that 49 percent achieved lower delinquency rates. This is especially true for firms in the energy and advertising sectors that have invested in automation, as 88 percent and 87 percent of these businesses, respectively, recognize these as key benefits of AR automation. Another advantage of incorporating automated AR tools is that it helps lower the delinquency rate, especially for firms that have higher degrees of automation in place. Seventy-one percent of advertising businesses and 69 percent of energy firms say automation has helped them reduce the delinquency rates of their receivables.

FIGURE 4:

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



Source: PYMNTS.com

Firms in the construction and healthcare sectors lag in terms of realizing key benefits from automation, however. Only 38 percent of construction firms state that adopting automation technology has improved their collections efforts, and just 27 percent of healthcare companies say the same. These results could suggest that healthcare and construction firms' generally less enthusiastic investment in automation technologies are holding them back from experiencing the same collections benefits reaped by their more automation-focused peers.

71%

OF ADVERTISING FIRMS EXPRESS IMPROVED COLLECTIONS FOLLOWING AR AUTOMATION IMPLEMENTATION, WHILE ONLY **27 PERCENT** OF HEALTHCARE FIRMS SAY THE SAME.

Businesses in these sectors may also be less familiar with such technologies and thus less knowledgeable about how to optimize their AR automation strategies. There are some signs that this is changing, however. The pandemic is driving many healthcare firms, for example, to integrate their back-office functions and even invest in technologies like artificial intelligence to better harness automation's power.[3]

TABLE 2:

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

[3] Lagasse, J. Advancements in automation are cutting into the rising costs of manual healthcare transactions. Healthcare Finance. 2021. https://www.healthcarefinancenews.com/news/advancements-automation-are-cutting-rising-costs-manual-healthcare-transactions. Accessed March 2021.

THE C-SUITE CHECKLIST

How finance leaders must approach AR automation to improve their firms' collection processes:

ASSESS AR PAIN POINTS.

- [ ] Businesses must gauge which key receivables pain points are affecting their collections cycles, allowing for a modular solution approach. This is especially critical for firms in the healthcare and construction sectors, which have lower levels of automation overall and thus must identify which strategic investments can best address their cash flow strains.

REDUCE DSO.

Minimizing DSO cycles can help businesses get paid sooner and improve their overall cash flows. This requires firms to embrace technological solutions to:

- [ ] Facilitate payment acceptance
- [ ] Optimize their collections process

PRIORITIZE AUTOMATION.

Firms that rely on manual processes struggle with high costs and challenges with their collections, but automation can help address these issues. The data demonstrates a clear gap between the firms in sectors that have largely embraced automation versus those that have not.

- [ ] Firms that rely on automation can reduce the time they take to follow up on overdue payments, which reduces the time it takes to collect payments.
- [ ] Utilizing automation to run customer credit checks allows firms to shorten payment terms and reduce the length of their payment cycles.

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CONCLUSION

Improved cash flow visibility is one of the main benefits firms can unlock by implementing technologies to automate their AR processes. Our research underscores how crucial it is for businesses to tap automated AR processes to avoid overlong payment terms and more swiftly follow up on overdue payments, in particular. Firms would also benefit from using technology to track customers' credit histories and automate payment acceptance, allowing them to spend less time manually verifying information and receive payments faster.

Firms that rely on automated methods for their payment collections efforts follow up earlier on their overdue payments and ultimately end up with shorter DSO cycles. This means that remaining competitive in today's digital-first business environment requires businesses to leave their legacy AR management processes behind and kick their automation plans into overdrive.

METHODOLOGY

The B2B Payments Innovation Readiness Playbook: The Impact Of Automated AR Processes On Collection Cycles, 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.

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