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THE STRATEGIC ROLE OF THE CFO PLAYBOOK

The SMB Advantage In Modernizing AP And AR

The Strategic Role Of The CFO

Playbook, a PYMNTS and Versapay collaboration, shines on a spotlight on smaller firms that are tapping digital AP and AR innovation to enhance efficiency and accelerate cash flow. We surveyed 400 chief financial officers at firms generating at least \$25 million in annual revenue across the U.S. to provide a full picture of how AR and AP innovation fits into their broader growth strategies.

THE STRATEGIC ROLE OF THE CFO PLAYBOOK

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The Strategic Role Of The CFO Playbook was done in collaboration with Versapay, 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.



EXECUTIVE SUMMARY

Not long ago, offering business customers payment method flexibility — through credit cards, alternative payment methods such as PayPal or account-to-account real-time payments — was something largely confined to innovative companies with well-resourced accounting departments. That was before a global pandemic pushed consumer and B2B commerce to digital channels and fundamentally disrupted longstanding supplier relationships. In this new landscape, digital payment capabilities are becoming essential to participating in the rapidly evolving global economy, including for small- and medium-sized businesses (SMBs).

Many SMBs recognize the current situation for the wake-up call that it is: 92 percent of them currently are digitizing aspects of their accounts receivable (AR) and accounts payable (AP) operations. They are pursuing digitization to a similar degree as large companies with substantial technology teams and budgets — and in some ways, SMBs have even more ambitious agendas.

These efforts are yielding immediate benefits for SMBs, allowing them to accept a wider variety of payment methods and reduce their reliance on paper checks. Approximately two-thirds of SMBs that have digitized parts of their payment operations say doing so allowed them to increase their use of credit cards and regular ACH. A majority of SMBs also say they

have increased their use of account-to-account real-time payments.

SMBs' motives for digitizing their AR and AP systems go well beyond individual payment methods, however. The vast majority — 93 percent — say they are seeking transformative changes that would allow them to gain new capabilities that have the potential to change how they do business. In contrast, large companies, those with more than \$500 million in annual revenues, are far more likely to cite automation as a primary objective. These data points suggest SMBs are uniquely motivated and ambitious in embracing digital technology to bring transformative changes to how they do business.

The Strategic Role Of The CFO Playbook: The SMB Advantage In Modernizing AP And AR, a collaboration with Versapay, examines how smaller firms are bringing robust digital capabilities to their accounting operations to drive efficiency and accelerate cash flow. The report draws on an extensive survey conducted in March and April 2021 of chief financial officers (CFOs) and executives at 400 firms based in the United States that have at least \$25 million in annual revenues. SMBs in this report are defined as having between \$25 million and \$100 million in revenues.

Here's what we learned.

BIG DATA

SMBs FACE A SIGNIFICANT NUMBER OF PAYMENT CHALLENGES

83%

Smaller enterprises have long been uniquely vulnerable to payment delays. A single late payment from a large customer can almost immediately compromise cash flow and working capital, and the pandemic has made this vexing issue even more challenging for SMBs. Seventy-four percent say they have experienced delayed payments volume because of the pandemic.

74%
OF BUSINESSES
GENERATING BETWEEN
\$25 MILLION AND \$100
MILLION IN ANNUAL
REVENUE CITE
**DELAYED
PAYMENTS VOLUME**
AS A PROBLEM
EXACERBATED
BY THE PANDEMIC.

TABLE 1:

Challenges made worse by the pandemic

Share of firms citing select problems, by firm size

	\$25M-\$100M	\$100M-\$500M	\$500M-\$1B	\$1B+
• Delayed payments volume	74.0%	68.0%	64.0%	74.0%
• Inability to optimize costs	70.7%	67.0%	66.0%	70.0%
• Increased days sales outstanding	60.0%	71.0%	56.0%	56.0%
• Staffing	48.0%	43.0%	35.0%	46.0%
• Costs of accepting payments	36.7%	42.0%	44.0%	48.0%
• Inability to handle customer payments	31.3%	40.0%	37.0%	44.0%

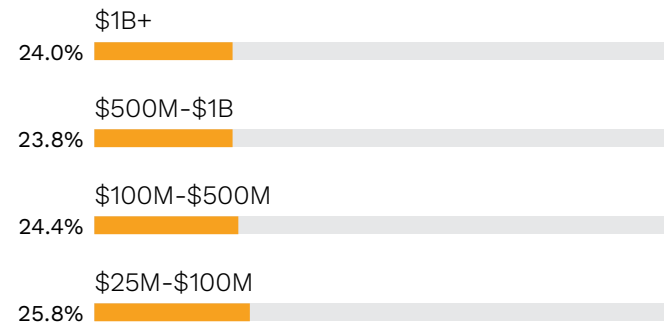
■ Highest

Source: PYMNTS.com

FIGURE 1:

Check payment rates

Average share of B2B payments made by check for firms in each size bracket since March 2020



Source: PYMNTS.com

24%
OF B2B PAYMENTS
MADE BY FIRMS
GENERATING
MORE THAN
\$1 BILLION
IN SALES ARE
MADE VIA CHECK.

This is not the only issue that has significantly impacted SMBs. They are more likely than large businesses to cite a range of issues, including greater difficulty optimizing costs (cited by 71 percent of SMBs) and addressing staffing matters (cited by 48 percent of SMBs).

SMBs also are more likely to pay their business partners with paper checks, which was especially problematic in the early days of the pandemic amid bank closures and restrictions. SMBs have made 26 percent of their B2B payments via check since March 2020, a larger share than that of larger firms.

The pandemic also has exacerbated the challenges of using checks to make payments and has enlightened SMBs to the complexities of — and inefficiencies related to — relying on them. Many firms have had to find new suppliers and business partners amid global supply chain disruptions.

Streamlined processes save us time, which helps us in focusing on other important areas of the organization.

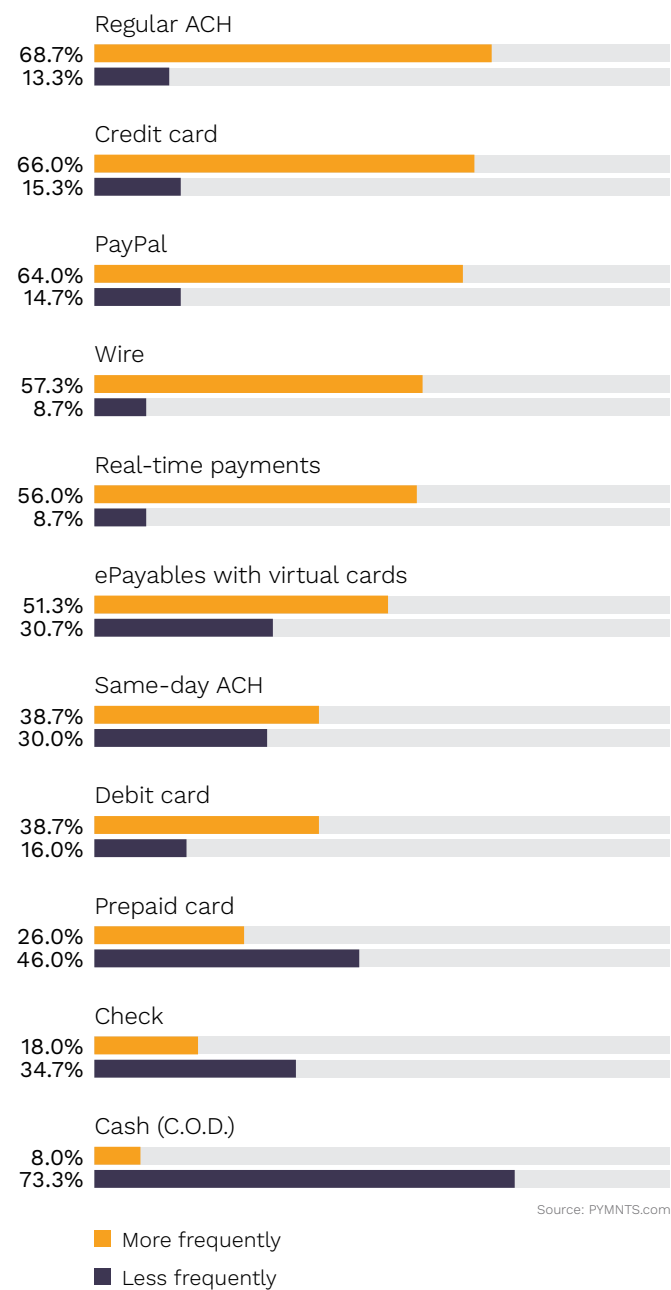
SMB respondent from the real estate industry

Digitization has provided us with a wide variety of payment and transaction-related options.

Our processes are now faster and more accurate.

SMB respondent from the wholesale trade industry

FIGURE 2:
Change in the frequency of payment methods
Share of SMBs indicating select payment methods have become more or less frequent due to digitization

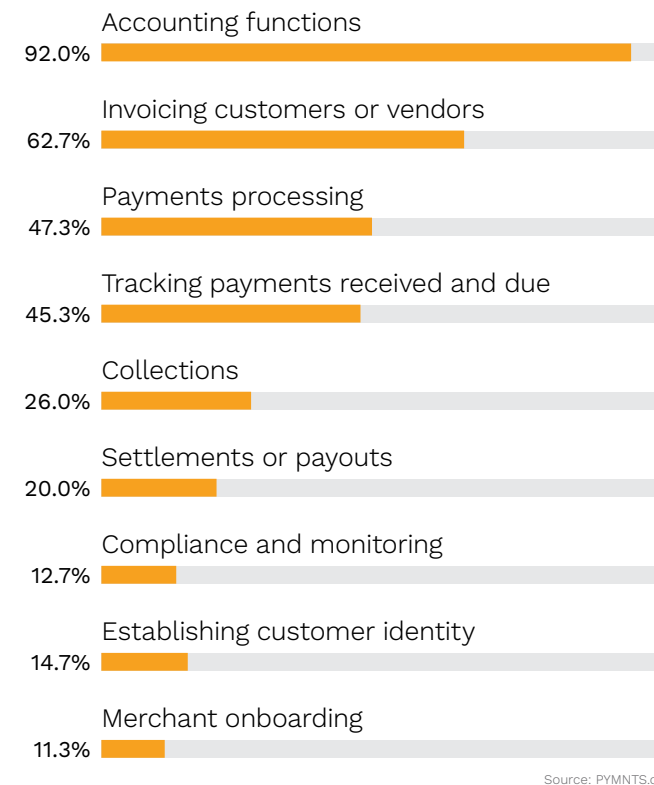


DIGITIZATION IS ALLOWING SMBs TO DIVERSIFY THE PAYMENT METHODS THEY USE, ESPECIALLY ONLINE.

One of the most immediate benefits SMBs are realizing from accounts receivable and payable digitization is the ability to accept a wider range of payment methods, a crucial capability as commerce increasingly shifts online. Use of regular ACH experienced the greatest increase among SMBs, but credit card payments accelerated to a similar extent. Approximately two-thirds of SMB executives say digitization in each case allowed them to increase ACH and credit card payments, and a similar share (64 percent) say the same about PayPal — the dominant online-native payment method. SMBs also have accelerated their use of real-time payments, as 56 percent indicated the account-to-account payment method has become more frequent thanks to digitization.

The pandemic has been a catalyst for accounts receivable and payable digitization across the spectrum of businesses. This does not mean the scale of all modernization efforts has been similar, however. Ninety-two percent of SMBs are modernizing accounting functions themselves, yet these initiatives are less likely to extend to a wide range of functions than those at large companies. For example, 45 percent of SMBs say they are digitizing the tracking of payments received and due. Just 26 percent say the same about collections. In contrast, the majority of large companies, those with more than \$1 billion in revenues, say they are digitizing these areas.

FIGURE 3:
Accounting and payments areas being digitized
Share of firms citing select areas, by firm size



Three specific payments-related operations emerge as priorities as part of SMBs’ digitization efforts beyond overall accounting functions. More than 62 percent are focusing on invoicing customers and vendors, a finding that dovetails with the larger theme in our research: that the desire to improve the customer experience is driving the current wave of AR and AP modernization. Digital invoicing capabilities also are vital to SMBs from the perspective of their own operations: Such abilities are key to maintaining cash flow amid the economic disruptions of the past year and a half. This relates to two other specific payment modernization priorities: payments processing and tracking payments received and due. Forty-seven percent and 45 percent of SMBs, respectively, say they are currently focusing on these issues.

SMBs WANT TRANSFORMATIVE, CUSTOMER-FOCUSED CHANGE IN THEIR ACCOUNTING OPERATIONS.

“Due to the pandemic, the key [change] that occurred was to resolve the queries of our customers and provide them with the best support. ... Things became easier for us by embracing new technology to solve customer problem[s].”

SMB respondent from the travel and transportation industry

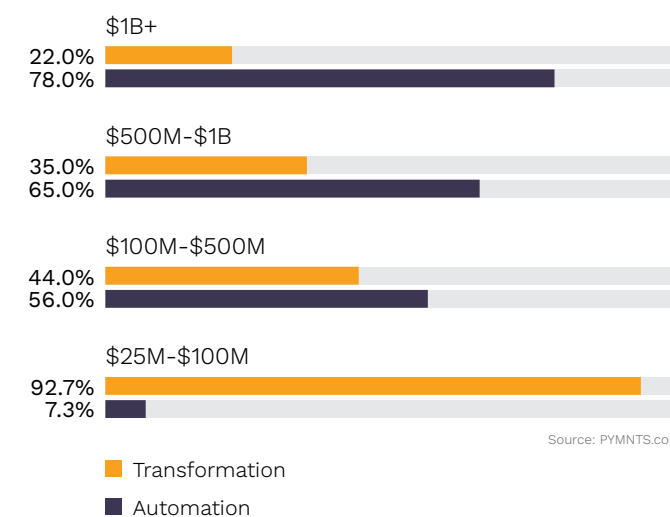
One of the starkest differences among firms of different sizes emerges when we examine the overarching motivations of CFOs for digitizing accounting operations. We asked executives to choose whether their main objective is primarily to achieve automation — reducing or eliminating the need for manual intervention in existing processes — or transformation, which is gaining new and better capabilities that firms previously did not have.

SMB executives overwhelmingly take the latter position: 93 percent say digitization is motivated by the desire for transformation. Large company CFOs are considerably more likely to cite automation as the primary motivator.

FIGURE 4:

Transformation versus automation

Share of firms in each revenue bracket that consider AR/AP digitization mostly about transformation vs. automation



This distinction relates to the reality that smaller firms tend to have fewer accounts than larger firms, meaning automation may be a less pressing priority for SMBs. Digitization offers the potential to achieve both transformation and automation, and firms of all sizes likely could benefit from

both. SMBs’ focus on transformation says something important about their unique position in the economy: unlocking new capabilities and potentialities can provide strategic advantages in highly competitive markets.

This comes into clearer view when we examine the specific organizational benefits SMBs expect to gain from modernizing their AR and AP systems. Two-thirds of SMB leaders view the transformation of operations and workflows in new and innovative ways as an expected benefit, meaning it ranks high among this group’s priorities.

Accounting modernization among SMBs today appears to be less about what the modernization can do for them and more about what it can offer customers and vendors. A nearly universal motivation for these firms is to benefit these parties, as 95 percent of SMBs cited it, outweighing such factors as speeding up transaction processing or making it less costly.

TABLE 2:
Anticipated organizational benefits from digitization
Share of firms citing select expected benefits, by firm size

	\$25M-\$100M	\$100M-\$500M	\$500M-\$1B	\$1B+
• Greater transparency in AP/AR	61.3%	67.0%	57.0%	58.0%
• Greater efficiencies in AP/AR	60.0%	60.0%	62.0%	54.0%
• Better integration across AP/AR	50.7%	65.0%	63.0%	66.0%
• More fully automated operations	33.3%	45.0%	60.0%	80.0%
• Transformation in innovative ways	66.0%	45.0%	35.0%	26.0%
• Improve customer satisfaction	32.0%	38.0%	38.0%	40.0%
• Greater transparency outside AP/AR	34.7%	40.0%	28.0%	34.0%
• Greater efficiencies outside AP/AR	26.0%	21.0%	37.0%	28.0%
• Higher revenues or profits	20.0%	22.0%	33.0%	40.0%
• Greater buy-in	18.0%	15.0%	21.0%	20.0%

Source: PYMNTS.com

TABLE 3:
Motivations for digitization
Share of firms citing selected reasons for digitizing AR/AP processes, by firm size

	\$25M-\$100M	\$100M-\$500M	\$500M-\$1B	\$1B+
• To benefit customers/vendors	95.3%	95.8%	95.8%	97.2%
• To automate a manual process	62.5%	63.2%	60.3%	64.9%
• To provide more transparency	52.7%	53.6%	53.7%	60.7%
• To provide more efficiency	50.1%	55.0%	51.5%	54.5%
• To better integrate AP/AR functions	46.9%	48.6%	46.5%	38.4%
• To provide new digital tools	42.0%	39.3%	40.0%	45.7%
• To process transactions more quickly	38.1%	38.7%	35.5%	34.1%
• Expectations to provide digitization	31.9%	32.3%	38.5%	38.9%
• To improve communication	28.0%	30.4%	33.2%	33.6%
• Competitors are digitizing	16.4%	14.4%	22.6%	15.2%
• To process with lower costs	14.8%	15.1%	19.0%	13.3%

Source: PYMNTS.com

DEEP DIVE:

THE SMB ROADMAP TO AR/AP DIGITIZATION

“Initially incorporating digitization into operations was a bit harder for us to comply with because of new applications of tools integrating into our systems. **Later, it has become our real-time practice, complementing the activities of the organization.**”

SMB respondent from the utilities industry

Smaller enterprises often face a familiar dilemma regarding technological investment. They tend to be highly motivated to minimize overhead, boost efficiency and embrace tools that might confer competitive advantages. At the same time, they also may feel they lack the monetary and human capital to take on major technological overhauls that might necessitate downtime and retraining.

Our data lends credence to this pattern. SMBs are exceptionally ambitious in how they view AR and AP modernization: They want transformative change. Their digitization efforts since the pandemic began have not been as broad in scope as those of large companies in practice, however. The following Deep Dive will explore some of the impediments that may be keeping SMBs from executing their innovation agendas and detail how they might overcome them.

One barrier looms larger than any other for SMBs considering modernizing their AR and AP systems: the perception that they lack the necessary IT resources to support digitization. Sixty percent of smaller firms cite this as a problem they

would expect to face in digitizing AP and AR, roughly two to three times the share of larger companies with this concern. This extends to SMB leaders' attitudes toward their current technical capacities: 55 percent of them view infrastructure-related problems as a potential impediment.

These perceived challenges are understandable, and SMBs must be especially diligent in weighing the potential benefits of technology investments with their

costs. Some of the concerns regarding the lack of IT staff and infrastructure may be overestimated, however, given the ease of use offered by state-of-the-art digital accounting and payment technologies.

Integrating digital tools — particularly those that enable payments — certainly would be a heavy lift for most small businesses on their own. Leading digital AR and AP technology providers offer cloud-based, collaborative platforms,

“During the early stages of the pandemic, addressing customer problems through conventional channels was a major challenge for us
... Deploying a multichannel support system made the process much easier and simpler for our staff to address customer queries.”

Respondent from the travel and transportation industry

TABLE 4:
Perceived barriers to digitization
 Share of firms citing select challenges, by firm size

	\$25M-\$100M	\$100M-\$500M	\$500M-\$1B	\$1B+
• Insufficient IT resources	60.0%	49.0%	37.0%	18.0%
• Problems from other areas	38.7%	44.0%	49.0%	66.0%
• Digital competencies among staff	42.7%	43.0%	45.0%	36.0%
• Need infrastructure support	55.3%	39.0%	22.0%	14.0%
• Difficulty with pinpointing problems	31.3%	38.0%	40.0%	50.0%
• Problems integrating across functions	38.0%	32.0%	39.0%	34.0%
• Workforce morale problems	21.3%	31.0%	40.0%	36.0%
• Problems communicating with customers	13.3%	23.0%	30.0%	24.0%
• Reduced revenues or profits	25.3%	16.0%	14.0%	12.0%
• Reduced customer satisfaction	12.0%	14.0%	34.0%	10.0%

Source: PYMNTS.com

fortunately, minimizing the need for on-premises technology and featuring intuitive interfaces that integrate easily with existing enterprise resource planning (ERP) and accounting systems.

The process of migrating accounts to cloud-based platforms takes time and requires the participation of key staff members; however, this task is not as onerous as some firms might assume, thanks to state-of-the-art digital technologies. In fact, SMBs may wield an important advantage over larger firms in taking on this process, since the volume of accounts they handle is far more manageable. In this sense, cloud-based digital accounting platforms may be uniquely

suited to SMBs, given that they tend to be less weighed down by bureaucracy and legacy systems than large corporations.

The concerns around technical infrastructure are reflected in another finding from our CFO survey: Close to two-thirds of SMBs believe the lack of configurable ERP systems would hinder digitization at their firms. This concern should be seen less as an impediment and more as a spur to action. Modernizing payments systems very well could serve as the catalyst for ensuring a firm has the end-to-end capabilities necessary to fully participate in the digital economy — in other words, to achieve transformative change.

CONCLUSION

Smaller enterprises are in many ways engines of economic growth and innovation. They also must be singularly bottom line-focused to survive and grow amid competitive pressures and unforeseeable events, such as those that have impacted the world over the past year and a half. These events have fundamentally altered business relationships and how they pay one another. Digital payment capabilities no longer can be seen merely as a value-added service but must be seen as an essential means by which firms pay and are paid.

This reality has brought the digitization of accounts receivable and payable to the forefront for SMBs. The vast majority of SMBs are digitizing at least some of their operations — in large part because they view them as essential to having good relationships with their customers and

vendors. SMBs want these innovations to bring transformative change to their operations, drive greater efficiencies, accelerate cash flow and enhance their competitiveness.

Many SMB executives understand that digital technology can help their firms gain new capabilities and overcome pain points in their current accounting operations. They are less sure about how to put these ambitions into action, however. Cloud-based digital AP and AR platforms have opened up digital payment and account management capabilities that were once solely held by big companies with large finance and technology departments. It is incumbent on SMB executives to choose their technology partners wisely, however, particularly in a market with an abundance of providers. Here are some key considerations they should bear in mind.



EASE OF INTEGRATION

Can the platform be integrated quickly and easily with minimal — or no — downtime?



INTUITIVE DESIGN

Is the platform easy for employees to use and understand?



SECURITY

Does the provider employ gold-standard payment security systems to protect against fraud and data theft?



END-TO-END CAPABILITIES

Does the provider offer digital services across the spectrum of payment operations to AR automation?



FLEXIBILITY

Can the service be tailored to a firm's unique objectives and challenges?



PARTNERSHIP

Does the provider work closely with clients for smooth integration and operation?



COLLABORATION

Does the provider offer shared access to information by connecting accounting teams with customers over the cloud?

EXECUTIVE INSIGHT

YOU HAVE HAD A CLOSE PERSPECTIVE ON HOW RECENT EVENTS HAVE IMPACTED FIRMS' ATTITUDES TOWARD DIGITIZING AR AND AP OPERATIONS. WHAT KIND OF CHANGES HAVE YOU SEEN, SPECIFICALLY AMONG SMBs?



CRAIG O'NEILL
CEO, **versapay**

The revolution in digital technology has had a dramatic and significant impact on how most corporate areas operate, particularly regarding accounting operations. What we're seeing is a desire for buyers to be more involved and hold more influence over payments processes, and in return, we're seeing companies kickstarting projects that are expected to deliver major improvements in efficiency. The two aspirations are colliding to create this fantastic, united experience whereby both buyers and sellers are prioritizing experience and convenience above all else. The result is a wholly new approach to accounts receivable — what we're calling Collaborative Accounts Receivable.

Traditional, analog-centric endeavors — such as manually sending invoices and receiving and processing checks — are tedious, inefficient and prone to errors.



In fact, many accounting processes are unwieldy and cumbersome for SMBs. But where traditional AR processes truly fall short is in their neglect of the most important stakeholder: the customer. To increase productivity and accelerate cash flow, SMBs need to address the widening disconnect between their accounting teams and their customers and begin to work collaboratively by sharing access to the same information in real time, over the cloud. Recent events have only exacerbated this need, and we're now seeing this shift taking place, en masse, and it all begins with automation.

Many companies are looking to AR automation to relieve significant pain around wasted time, underutilized talent and delayed cash flow. Automation can ease some of these pains, but automation alone won't fix the significant issues that arise from the communication gap

between your AR department and your customers. Here's where we've seen the most notable shift in mindset amongst SMBs. They've realized that while digitization is inevitable, automation is merely a piece of the puzzle, and to move beyond automation and critically transform their AR, they need to rethink their processes as well.

Firms are focusing more on delivering exceptional customer experiences, and accounts receivable digitization is being viewed — rightfully so — as a strategic lever for this. No longer are payments and AR viewed predominantly as behind-the-scenes activities that must be done after contracts are finalized. SMBs increasingly consider these functions — and their transformation to digital and collaborative experiences — to be crucial for building strong customer relationships, and all this has been accelerated by recent events.



METHODOLOGY

The Strategic Role Of The CEO Playbook, a PYMNTS and Versapay collaboration, draws from a survey of 400 CFOs conducted in March and April 2021 to provide a first-hand account into how businesses are investing in digital AP and AR innovations to accelerate their cash flows. Participants hailed from U.S.-headquartered businesses across 18 sectors that generated at least \$25 million in annual revenue.

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