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Cash flow considerations are not limited to one sector or business type. All companies must prioritize the creation of timely and accurate cash flows to make certain their money is where it needs to be when it needs to be there. Delays or errors in the process can have colossal ripple effects as firms lack the free capital to ensure timely payroll, vendor payments and a host of other necessities that could quickly spiral out of control. It is the job of accounts receivable (AR) departments to ensure customers’ payments arrive on time and with all the necessary information, lest their firms’ downstream cash flows be imperiled.

This is much harder on paper than it is in practice, however. Data entry errors and payment processing delays are the bane of any AR department, and these issues often are exacerbated by companies’ reliance on paper payments despite increased digitization. A recent study of payment decision-makers found that 80 percent of them said it takes more than 20 days to receive customers’ payments, for example, and half said at least 7 percent of their payments have failed over the past 12 months.

One potential answer to these AR challenges is automation, which reduces the potential for human error by implementing systems that rely on artificial intelligence (AI). These systems delegate everyday processes, including collections and invoicing to AI-aided systems, accelerating the complex calculations that often frustrate
and bog down human analysts. Eighty-seven percent of firms with AR automation in place reported an improvement in overall process speed, and 75 percent said AR automation had improved their customer service. Significant AR challenges remain across myriad sectors, but implementing automation could save precious human and monetary resources that could be devoted to other business pursuits.

**WORKING CAPITAL DEVELOPMENTS AROUND THE GLOBE**

Payment errors and delays can have massive ramifications for many industries, with the construction sector serving as a prime example. The construction industry loses $100 billion annually due to delays that stem from two primary sources: aging infrastructure that transfers payments via postal mail or electronic means and tardiness in payments documentation, approval and communication. Net-30 terms are typical in the construction sector, but almost half of all firms wait up to 90 days to receive payments. This suggests that digitization and AR automation could go a long way toward helping construction firms maximize their efficiency and lower costs.

AR automation is working to close this payments gap and has seen widespread implementation within the business world. The Institute of Finance and Management (IOFM) reported that the global AR automation market is projected to grow almost 13 percent annually within the next five years, up to $3.9 billion in 2026 from $1.9 billion this year. The IOFM said the pandemic has been a key growth driver in this regard, as many companies’ accounting employees are working from home, limiting the efficiency of manual AR procedures.

One firm working to accelerate the implementation of AR automation systems is cloud-based AR management and automation solution provider YayPay. The company recently partnered with payment solution provider Flywire to extend the latter’s digital payment solutions to its business-to-business (B2B) clients. Customers can use Flywire’s currency exchange, automated reconciliation and local collection and settlement services, as they will be embedded within YayPay’s AR solution.

For more on these stories and other working capital developments, read the Playbook’s News and Trends section (p. 10).
LEVERAGING AR AUTOMATION TO MAKE REMOTE WORK MORE EFFECTIVE

Record numbers of employees began working from home when the pandemic began, but this change has brought with it a fair number of challenges in the form of communication and collaboration mishaps. This transition especially affected accounting departments, but many found that AR automation helped reduce the number of delayed payments and errors. In this month’s Feature Story (p. 7), PYMNTS spoke with Alexey Grakov, co-owner of software development company VironIT, about how AR automation has kept remote work hiccups to a minimum.

DEEP DIVE: HOW PAPER PAYMENTS ARE HINDERING AR AUTOMATION

AR automation can provide numerous benefits to corporate accounting teams, reducing payment errors and delays that can lead to big costs in terms of downstream cash flow issues. Automated solutions’ implementation is severely hindered by the persistence of paper-based payments, however, which still are commonplace in the business world despite the increasing prevalence of digital solutions. This month’s Deep Dive (p. 13) explores why paper-based payments are delaying the implementation of AR automation and what firms stand to gain from taking their payments digital and going all in on AR automation.

EXECUTIVE INSIGHT

Ninety-three percent of organizations receive late payments from customers that result in cash flow delays. How can AR automation help accelerate payments processing?

“AR automation helps structure a customer communication strategy in which messaging is frequent, informative and well-timed. Through automation, you can ensure that communication is tailored to your customers based on any number of differentiating factors, such as region, product line, risk or business size. Details such as which invoices are due, total balance, line-item detail, bank information and any specific customer details — such as a [purchase order] — ensure payment can be made without the need for further clarification. Additionally, leveraging a self-service customer portal can further enhance the customer experience and improve speed of payment by providing the end user all the details they need to review invoices. They can also offer multiple payment channels, such as credit card acceptance, ACH or wire functionality, to deliver a superior payment experience.”

ANTHONY VENUS
CEO
YayPay
FIVE FAST FACTS

82%
Share of chief financial officers who measure AR turnover to gauge their success in raising customers’ overall value

70%
Portion of chief financial officers who are trying to increase customers’ overall lifetime value by making AR more transparent

62%
Share of chief financial officers who hope to increase customer value by making AR more efficient

59%
Portion of chief financial officers who expect better integration of AP/AR functions with digitization

40%
Share of chief financial officers who say check use has become less common as a result of digitizing accounting operations

WORKING CAPITAL PLAYBOOK
FEATURE STORY

VIRONIT ON SIDESTEPPING WORK-FROM-HOME CHALLENGES WITH AR AUTOMATION
The pandemic has been a game changer that resulted in an economic downturn, the closure of many brick-and-mortar businesses and a massive shift in the number of employees working remotely. Thirty-five percent of employees worked from home at the pandemic’s height in May 2020, throwing facets of office work into chaos due to the lack of communication and in-person collaboration.

One department that faced challenges in moving operations remotely was AR, with the need for proper infrastructure and accounting software resulting in payments delays and errors for many companies. This had devastating effects on downstream processes such as payroll or vendor payments. Some companies managed to deploy AR automation to reduce the impact on their accounting processes, including software development company VironIT.

PYMNTS recently spoke with VironIT’s co-owner, Alexey Grakov, about the pandemic’s effects on AR processes and how the company leveraged AR automation to keep its accounting as fast and accurate as possible amid the vastly changed business environment.

AR HURDLES INTRODUCED BY THE PANDEMIC

Both customers and employees working from home created the biggest challenge brought on by the pandemic, according to Grakov. This was a new experience for many companies, resulting in communications challenges, accountability issues and a host of other obstacles of which organizations were completely unaware when employees had easy access to one another in the office.

“In the beginning, it was a bit frightening, because we were unaware [of] what to expect,” he said. “Many businesses started to close or postpone projects. Our team started to work from home; that was a big challenge for all of us.”

Fortunately, VironIT’s clients largely relied on digital payments, meaning transactions were rarely delayed. This allowed VironIT to sidestep potential cash flow issues. Its AR department experienced the occasional hiccup due to technical challenges, however, but was able to recover quickly.

“For us, delayed payments wasn’t a big issue, because most of our customers we work with have online banking and never used paper checks or cash,” said Grakov. “We’ve had more issues with working from home, when someone was left out of the internet or occasionally blacked out, but it was only in the beginning. After several months it turned out that the team became even more productive.”

A key driver of this improved remote work efficiency was the company’s automated AR system, which allowed AR team members to perform at near-peak efficiency even when potentially separated by thousands of miles.
LEVERAGING AUTOMATED AR TO BOOST ACCOUNTING EFFICIENCIES

Leveraging AR automation can generate invoices for customers automatically, saving significant time and energy for accounting staff. This proved especially useful in the remote work environment for VironIT, immensely reducing the amount of time it took to create invoices.

“Our invoices are created automatically, and we spend less than one hour on an invoice when it was 10 hours or so before we introduced AR automation,” said Grakov. “Now, our customers get invoices on time and, if they have any questions, they have more time to sort things out compared to when the invoice was delayed and we urgently needed it to be paid.”

This type of time savings is possible only in the digital environment, however. Businesses that rely on paper-based payments could face significant delays, according to Grakov, due to the potential for error and tedium that comes with manually processing customer transactions.

“It is easy to imagine how time-consuming it could be: opening envelopes, scanning, data entry, double-checking the data, [passing] the invoice through the workflow [to ensure] that everything is accurate,” he explained. “[It is] tons of time wasted that the accounting team could spend on something more smart.”

Both AR automation and digitized payments are a necessity for businesses to be able to operate successfully from home. Worldwide, some businesses have shifted permanently to a remote work model, and their accounting processes will need to be updated if they wish to avoid delays or errors.
AR AND B2B PAYMENTS CHALLENGES

SLOW PAYMENTS COST CONSTRUCTION INDUSTRY $100 BILLION ANNUALLY

Payments delays are a perpetual nuisance in many industries, as they can result in downstream cash flow issues that harm accounts payable (AP), payroll and other departments. One sector especially prone to feeling the squeeze from sluggish payments is the construction industry. Tardy payments cost the sector $100 billion annually and stem from two major sources: the limitations of the physical infrastructure that transfers payments via postal mail or electronic means and lateness in payments documentation, approval and communication.

Net-30 terms are typical in the construction sector, but almost half of all firms wait up to 90 days to receive at least some of their payments. FinTechs are attempting to close this gap via solutions such as push payments, same-day payments and automated clearing house (ACH) credit cards but, for now, payments delays are gumming up the timelines for construction projects and ultimately costing construction firms and their clients tens of billions of dollars. Implementing digitization plans and automated AR processes will be necessary to help the industry push past these manual pain points.
MOST CONSUMERS, BUSINESSES STILL FAVOR PAPER CHECKS DESPITE DIGITAL TRANSACTION IMPROVEMENTS

Paper checks are a pervasive obstacle when it comes to fast and accurate AR processing, as they must be entered or scanned into corporate accounting systems by hand. This almost inevitably results in human errors as well as delays. The Federal Reserve collected more than 900 million checks in Q3 2021 for a total value of $2.1 trillion. Businesses and individuals continue to rely on checks for various reasons, including their tangibility and the fact that their values can be ascertained instantly without the use of a phone or other device. There are few digital substitutes that can provide these qualities, resulting in many firms’ hesitance to embrace electronic payments.

Digital payments providers are attempting to make these payments more appealing by integrating them into enterprise resource planning (ERP) and accounting systems, enabling a smoother transition away from paper payments. Making digital payments more common could yield significant downstream improvements for AR departments, as they reduce the risk of delays and data entry errors.

AR IMPROVEMENT INITIATIVES

FEDERAL RESERVE ESTABLISHES NEW STANDARDS TO ENCOURAGE GREATER DIGITAL PAYMENTS ADOPTION

As greater digital payments market penetration is a key step in improving AR processes across the board, any step in that direction is likely to pay big dividends for corporate cash flow procedures. The Fed recently announced new standards for electronic remittance data in partnership with the Business Payments Coalition and 115 industry organizations, establishing a new E-invoice Exchange Market pilot program. The program enables businesses to exchange invoices with one another by establishing a secure eInvoice delivery framework between providers. The Fed also established a Remittance Delivery Assessment Work Group tasked with developing a solution for exchanging electronic information across all payment types.

The increased usage of digital payments is likely to drive more robust adoption of AR automation systems, which, in turn, could improve days sales outstanding (DSO) and other cash flow issues. Almost two-thirds of firms that have automated their AR processes have reported improved DSO, and 49 percent said they achieved lower delinquency rates.
GLOBAL AR AUTOMATION MARKET EXPECTED TO REACH $3.9 BILLION BY 2026

Firms that already have adopted AR automation systems are reaping the dividends. The IOFM recently reported that the global AR automation market is projected to grow by more than 12 percent annually over the next half decade, up from $1.9 billion in 2021 to $3.9 billion by 2026. The ongoing pandemic has been key to driving this growth in AR automation, according to the IOFM, as account staff at many companies continue to work from home, thus limiting the efficiency and feasibility of manual AR procedures. The report noted that the next step in AR improvement likely will take the form of business intelligence and analytics, augmenting companies’ abilities to have AR staff work remotely and expanding their opportunities to recruit talent worldwide.

YAYPAY PARTNERS WITH FLYWIRE TO DIGITIZE B2B PAYMENTS

Several providers are taking steps to digitize B2B payments and improve AR efficiencies, including cloud-based AR management and automation solution provider YayPay. The firm recently announced a partnership with Flywire to extend the latter’s digital payment solutions to B2B clients, allowing YayPay users to leverage Flywire’s services when transacting internationally. Customers will be able to use Flywire’s currency exchange, automated reconciliation and local collection and settlement services, as they will be embedded into YayPay’s own AR solution.

The collaboration drives additional efficiencies in terms of AR automation by incorporating Flywire features such as tailored invoicing, settlement and reconciliation tools, flexible payment options and custom ERP integration. This is intended to alleviate AR processing issues and reduce errors, which can result in downstream cash flow issues if left unchecked.
Accounts receivable processes are a necessity for all businesses that deal with a substantial number of customers. Firms must ensure money arrives on time and is in the right place for corporate uses, including payroll, vendor payments or cash management purposes. This vital everyday process can be surprisingly complicated, however, with 93 percent of organizations receiving late payments from customers that result in delays and errors. These issues, in turn, prompt the average business to write off 1.5 percent of its receivables.

Many companies’ margins are so tight that even this seemingly nominal loss can mean the difference between solvency and bankruptcy, and many are exploring numerous solutions to reduce these late payments and errors. AR automation has demonstrated a high level of efficiency reducing the share of bad debt, but the industry’s reliance on paper payments has significantly hindered the technology’s broader implementation.

The following Deep Dive explores the benefits organizations can reap via AR automation, the obstacles preventing its widespread use in the corporate world and how businesses can overcome them.
ADVANTAGES OF AR AUTOMATION

The challenges preventing timely and accurate AR operations have grown over the past 12 months, according to experts in the field. A recent study of payment decision-makers found that 80 percent believe that it takes more than 20 days to receive payments from customers. These delayed payments have had significant downstream effects on organizations’ cash flows, with half of payments leaders saying at least 7 percent of their payments have failed over the past 12 months. One key metric in measuring AR effectiveness is DSO — the average time it takes to collect payment for sales. More than 80 percent of the study’s decision-makers said reducing DSO is a top priority over the coming year, and even modest improvements in this field could lead to significant overall business improvements.

AR automation could play a critical role in shortening payments delays, minimizing AR errors and reducing DSO. These systems delegate day-to-day processes such as collections and invoicing to AI-aided solutions, significantly reducing the capacity for human error and accelerating complex calculations that tend to be tedious for accountants. Eighty-seven percent of firms utilizing AR automation reported gains in overall process speed, and 75 percent said AR automation had improved their customer service. DSO among automated businesses also dropped significantly, with the average automated business seeing a DSO of 40 days compared to 47 days for firms conducting their AR operations manually.

AR automation may seem like a silver bullet for firms looking to improve their accounting efficiency and cash flow procedures, but many firms lack the capacity to implement the technology for a variety of reasons. Chief among them is a reliance on paper checks and other manual payments.

PAPER CHECKS CAN HINDER AR AUTOMATION

Digitization has become the norm in consumers’ personal and professional lives and affects every sector, including retail, banking and even telehealth. Many firms still rely on traditional
paper-and-pencil accounting and payments, however. The portion of B2B payments made via paper check certainly has declined in recent years, plummeting from 81 percent in 2004 to 42 percent by the end of 2019, but they have hung on tenaciously across multiple use cases. A PYMNTS study from 2020 found that 81 percent of firms still use paper checks to pay other businesses at least occasionally, and while the overall volume of check-based payments is declining, their average value is on the rise. The mean B2B check was valued at $526 in 1998, but its 2020 counterpart was worth $2,600.

Automating AR departments that still largely rely on paper payments can be an exercise in futility, as these checks need to be scanned into accounting solutions or entered manually. This process can be time-consuming and prone to errors that AR automation cannot fix, as it relies on human data entry for its own calculations and cash flow decisions. The quality of data to which AR departments have access could remain substandard unless they can digitize their payments before implementing automated AR processes.

Payments digitization enables the implementation of AR automation and reduces the risk of check fraud, which was reported by 66 percent of payments professionals in 2020. This fraud reduction, coupled with accuracy and timeliness improvements, makes payments digitization and AR automation a winning combination when it comes to improving firms’ cash flows and overall revenues.
ABOUT

PYMNTS.com  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.

YayPay  Quadient is the driving force behind the world’s most meaningful customer experiences. Among Quadient’s Intelligent Communication Automation solutions, YayPay by Quadient’s core purpose is to revolutionize the future of work for finance teams. Our smart and modern Accounts Receivable solution changes the game by vastly improving the order-to-cash experience for finance teams and their customers. YayPay is at the forefront of back office automation and machine learning.

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