Meeting the Growing Need for AR Modernization

B2B and Digital Payments Tracker® Series

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Economic conditions have brought AR teams to the helm at organizations navigating cash flow challenges across industries.

**83%**

Share of owners and executives who believe their AR teams have become more crucial to their businesses’ success in recent months

**44%**

Share of companies that believe their AR teams have the tools, resources and skills they need to contend with the current economy

An Unstable Economy Elevates AR

The global economy continues to face strong headwinds in 2023, with the business-to-business (B2B) sector at the storm center. Organizations across industries are struggling with delayed payments and disruptions to steady cash flow, and the potential for an extended downturn threatens many more.

Amid the tempest, accounts receivable (AR) teams have been charged with the role of navigator. More than eight in 10 businesses believe their AR teams have become more crucial in recent months, yet the resources at teams’ disposal remain limited. Only 44% of respondents believe their AR teams have the tools, resources and skills they need to contend with the current economy.
**Late payments are on the rise.**

Troublingly, 81% of businesses in a June survey said they had witnessed an increase in delayed payments over the previous few months, with the manufacturing industry likelier than others to report a significant rise in late payments.

A 2023 supplier sentiment survey confirms this trend. It determined that 50% of businesses are being paid late by their customers — the highest rate in the annual survey’s history, up sharply from last year’s 36%. Only 44% are paid on time or early by their customers. To shore up their working capital and stem cash flow gaps, 59% of surveyed companies said they would be interested at least some of the time in offering a discount to B2B buyers in exchange for early payments.

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### Reasons for suppliers’ interest in taking early payments from B2B buyers in exchange for a discount:

- **Cash flow gap**: 48%
- **Working capital need**: 26%
- **Collections/payment predictability**: 24%
- **Reduce days sales outstanding (DSO)**: 9%
In the current environment, AR automation is no longer optional.

A 2023 survey on working capital performance showed that days payable outstanding (DPO) — a measure of the time it takes companies to pay their suppliers — fell sharply throughout last year, suggesting that companies have reached the cap on negotiating extended payment terms with these business partners. DPO fell by nearly five days to an average of 57, with companies dependent on scarcer commodities reporting the most dramatic deterioration in DPO. Instead, it is evident that to prosper in these conditions, companies have no choice but to invest in AR, digitalize payment technologies and make the mitigation of delayed payments their first priority.

The B2B space has been slow to embrace technology, but the undeniable benefits of a digital-first strategy make it impossible to postpone adoption any longer. By streamlining payment processes, reducing administrative costs and offering enhanced visibility into cash flow, technology investments such as digital invoicing and AR automation are paying off for the companies that make them. Nearly three-quarters of adopters in a recent survey reported seeing faster payments, resulting in better cash flow and customer relationships. Supporting AR teams with modern tools and training will provide them with the equipment they need to chart a successful course through the economic storm.

Digital payments offer a solution to frictions in the order-to-cash (OTC) cycle that are threatening cash flow.

- 68% Share of CFOs who say payment-related delays were an issue in the last six months
- 55% Share of CFOs who say disputes and exceptions were an issue in the last six months
- 48% Share of CFOs who say shipping-related problems were an issue in the last six months
Checks: Not Making the Cut

A recent article reports that despite an ongoing shift toward digital transactions, 81% of B2B companies still use paper checks.

Although this finding is not news, its implications in an increasingly digital world could cost companies. Manual payment methods such as paper checks have many downsides — never more so than now. Paper checks are slow payments that help clog AR streams. They not only pose a higher risk of errors but also offer an easy attack vector for fraudsters. They are readily lost or stolen in transit, and the administrative tasks required to process them consume valuable staff time and company resources that would be better invested in more strategic endeavors.

Digital solutions powered by modern innovations can overcome the challenges and frictions inherent in paper checks while boosting workflow efficiency. Moreover, AR automation not only reduces costs but also positions companies to compete in today’s — and tomorrow’s — faster, increasingly digital payments landscape.
77% of AR teams are behind schedule

Evidence that AR is in need of support and prioritization continues to mount. A recent survey finds that AR teams are straining to stay above water in collecting payments on invoices, with many falling weeks or even months behind schedule. The survey of 300 CFOs determined that only 23% of AR teams are up to date on collections, while an almost equal share — 22% — are months behind. Meanwhile, 38% are slightly behind, 15% are weeks behind and 2.3% say they will never catch up.

Part of the problem is one of sheer volume, with 41% of teams processing 300 to 2,500 invoices per month, 28% processing between 2,500 and 10,000 monthly, and 10% processing an astounding 10,000 invoices or more in any given month.

These problems are ongoing, with 54% of finance leaders in a 2022 study citing reduction in cash flow delays as a top need and 41% calling payment speed the biggest roadblock to their AR processes. The current report advocates the use of collaborative payment portals that allow for two-way communication between companies’ AR teams and customers’ accounts payable (AP) teams to help solve matters.
News and Trends

Inflation maintains pressure on small business cash flow

A study of 500 small business owners across the United States shows the current macroeconomic climate presenting severe challenges and making cash flow a top priority for 85%. According to the study, inflation has had an extreme or high impact on cash flow for 48% of small business owners over the past six months, with 45% saying they have had to forgo their own paychecks and 22% saying they have not been able to pay bills.

Although 70% of small business owners say they use digital tools to review their cash flow, they admit to leaving many tools untapped: 55% of owners do not use accounting software to track payments, 56% have not set up invoice payment services and only 11% use cash flow forecasting tools.

- Share of small business owners who do not use accounting software to track payments: 55%
- Share of small business owners who have not set up invoice payment services: 56%
Why the Time for AR Automation Is Now

With more than eight in 10 companies still seeing delayed payments rise in 2023, concerns about the global economy remain high. Small business owners’ top reported financial challenges over the last 12 months were limited or inconsistent cash flow, at 40%, and no cash reserves for emergencies, at 29%. In addition, 58% of business owners disclosed that cash flow worries had affected their personal well-being, citing stress, anxiety and sleepless nights as the top three impacts they experienced.

It is no surprise that an equal share of companies — eight in 10 — therefore see their AR teams as more crucial now, with 64% of CFOs saying they definitely need more automation in their AR processes. Nevertheless, manual methods still prevail, with 81% of companies using paper payments for commercial purchases. Why are B2B payments taking so long to go fully digital? The current economic environment may be just the wake-up call organizations need to prioritize AR modernization.
Lifeblood in jeopardy

One reason for B2B’s slow digital transformation is that companies are not assigning AR operations the priority they deserve due to legacy notions about AR’s importance — or lack thereof.

“It’s a part of the business that is sort of forgotten, misunderstood, when really your AR practitioners are the lifeblood of your cash flow,” Russell Lester, CFO of Versapay, said in a recent article reporting that more than three-quarters of AR teams are running behind schedule. “I think modern CFOs are realizing they hold the tip of the spear in generating healthy cash flow: The number one way [to achieve it] is [by] getting paid for what you did.”

As a result of these misplaced priorities, the typical in-house AR program runs the same way it has for the last 20 or 30 years — using tools and processes that are manual and clunky, not just for merchants but also for their customers.
PYMNTS Intelligence

Collaborative communication: Bridging the AR-AP gap

At the heart of effective B2B relationships is AR teams’ ability to collaborate with customers’ AP teams to speed invoices’ processing and payment. Even if payment portals are available, communication silos are a major contributor to AR logjams, according to a recent study, with companies having approximately $4 million in outstanding invoices every month due to disputes and lapses in communication between B2B partners. Improving communication reduces cash flow delays by enhancing customers’ ability and willingness to pay.

Standard payment portals generally do not allow for two-way communication between AR teams and customers’ AP teams, permitting only the viewing of invoice and account statuses. Cloud-based collaborative AR portals, on the other hand, offer the added dimension of communication in real time to negotiate invoice disputes at the line-item level within the application. Without this dimension, businesses must resolve these disputes manually, jeopardizing both staff time and customer experience. Combining automated technology with customer communication can bridge the divide that so frequently disrupts cash flow. With newer, cloud-based systems offering highly effective solutions, companies can no longer afford to hesitate.

How often do challenges with invoices arise that are outside the ability of your current payment processing systems, forcing your AR team to step in and resolve them manually?

- **80%**
  - Multiple times per month or more
- **53%**
  - Multiple times per week or more
- **20%**
  - Multiple times per year or more
How Automation Reduces Delays in Receivables

More AR automation seems to be producing better results for businesses, according to recent PYMNTS Intelligence data. CFOs of companies that automate more than half their AR processes report a meaningful reduction in DSO, with 85% achieving a decline in DSO associated with automation of payments and exceptions handling and 78% achieving a reduction via automated invoice tracking. By contrast, only 67% and 33% of firms automating less than half their AR workflows achieved reductions in DSO via these automations, respectively.

Source: PYMNTS Intelligence
How Automations Reduce Receivables Delays, July 2023
N = 30: Firms that used digital technologies or automations to support AR processes, fielded April 11, 2023 – April 26, 2023
Certainty, stubborn inflation dominates the economic landscape and impacts markets in unpredictable ways, as do unrelenting interest rate hikes from the U.S. Federal Reserve. That’s why it’s so critical to automate your systems to reduce cycle times and get paid faster.

The current economic and business environment is pushing companies’ buttons in more ways than one. According to a recent study by Billtrust, the biggest influences on businesses right now are inflation pressure, the need for financial resilience and the increasing unreliability of supply chains. These forces are driving more and more companies to one inescapable conclusion: Automation of their AR and AP processes is do-or-die.
“Certainly, stubborn inflation dominates the economic landscape and impacts markets in unpredictable ways, as do unrelenting interest rate hikes from the U.S. Federal Reserve,” Sharp told PYMNTS Intelligence. “That’s why it’s so critical to automate your systems to reduce cycle times and get paid faster.”

Unfortunately, he said, there are still many companies that have not managed to make it to the connected stage of maturity. Only 15% of respondents to the survey had a connected OTC process based on real-time data. Making the shift to digital AR is a giant leap for many, requiring a change not merely of mind but of mindset.

The impact of manual AR/AP processes on businesses’ bottom lines is direct and tangible — especially for certain verticals. A stunning 94% of respondents to the survey indicated that manual OTC processes have negative impacts on their businesses’ profitability, Sharp said. Companies in the construction industry, in particular, report that almost one-third of their AR dollars are paid severely delinquent — or more than 91 days past due. With 77% of CFOs saying that digital transformation of the OTC process is crucial to their organizations’ survival, companies are having to take a more aggressive stance on AR management.

Several technologies are showing promise in addressing these challenges. To elevate cash management to the paramount status it demands, companies need the tools that allow them to make more strategic decisions based on data and trends impacting their key performance indicators.

Sharp noted that CFOs are routinely asked to answer broad questions in real time, and accurately determining cash and liquidity on these terms can be exceedingly difficult for complex companies. Firms must therefore look for complete cloud-based software solutions that help them improve the entire OTC process in real time from end to end — credit, invoicing, payments, cash application, collections — integrated with advanced analytics and reporting to help C-level executives make better decisions.

On this front, artificial intelligence (AI), he said, is already having a tremendous impact on many financial business processes. AI has been shown to boost efficiency, help manage risk and provide predictive insights as well as improve the customer experience. However, despite the sky-high expectations for AI’s ability to turn companies around, he said, CFOs are still in learning mode when it comes to effectively implementing this technology.
Insider POV

Unified, collaborative AR solutions hold the key to success for businesses now. To address the current challenges and stay competitive, Sharp said, CFOs and financial leaders are tapping unified software-as-a-service (SaaS) solutions for AR. These systems bring together a range of essential tools and functionalities for AR teams in one place and are designed to streamline financial operations, enhance collaboration with B2B partners and provide real-time insights for more informed decision-making.

“A complete, collaborative suite of AR software minimizes the challenges caused by disjointed software systems — as well as by manual data entry, errors, wasted time and immature AR processes,” he concluded.

Shifting to an Intelligent OTC Mindset

What's Next

AR/AP Automation Market to Approach $5B by 2028

The global AR/AP automation market, valued at $2.8 billion in 2022, is anticipated to grow at a compound annual growth rate (CAGR) of 10% over the next five years to reach $4.96 billion by 2028. With digital transformation becoming a must-have for companies' survival, a variety of technologies are driving the future of AR. These include machine learning (ML) for billing and cash applications; automated workflows; virtual assistants; AI analytics for forecasting accuracy; and application programming interfaces (APIs) for connecting disparate systems. Economic uncertainty is highlighting the importance of cloud technology for access anytime and anywhere. Adopting these strategies will confer on companies the agility they need to respond to rapidly changing business dynamics.
What’s Next

“Upgrading to automated AP/AR solutions, and exploring end-to-end payments platforms through partners like American Express, allows businesses to pay and get paid more efficiently, saving them time and money previously spent on back-office processes.”

R. J. ANCONA
Vice president and general manager
B2B Product, Partner and
Client Management, Global Merchant
Network Services

“...efficient processes help them better manage their cash flow and preserve working capital, which are critical to business strategy and planning. Modernizing and automating the AP and AR processes can be a game-changer, helping businesses to better keep track of all the inflows, outflows and moving pieces associated with each.”

TRINA DUTTA
Vice president and general manager
B2B Payments Automation, Global Commercial Services
About

PYMNTS Intelligence 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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