AR Plus Technology Equals Resilience

In the previous article, in conversation with Ben Sepehri, Director, AR Finance, Taulia, the impact of inflation on AR, and the best next steps for businesses, were explored. In this follow-on piece, he picks up the thread with an examination of the increasingly useful role that technology – both cutting edge and every day – has to play in bringing key AR metrics under control.

The best position from which to make any decisions around AR is having a full view and understanding of the receivables book. This may sound somewhat obvious, but many businesses are simply not in a position to immediately see the status of AR across their entire set of systems. They will not, therefore, be able to see the flows and trends within that process, and thus not be able to see trouble coming, nor be in a position to enhance those processes for longer-term benefit. "We see many companies struggling to draw insight from their data, let alone implement a financing and liquidity strategy in an efficient manner," notes Sepehri.

A typical corporate setup might see decentralized processes, multiple ERPs, and different billing and collections methodologies fragmented across various geographies. This lack of cohesion can, and often does, create unnecessary challenges for AR teams, which in turn leads to reporting issues.

Indeed, with AR teams trying to merge multiple reports in a central repository, it forces a time and cost penalty into the process. It also heightens risk where manual keying and rekeying of data is required. "Where legacy processes that are deeply embedded in business practices are still used, these can be very hard to unwind, presenting an unnecessary risk," says Sepehri.

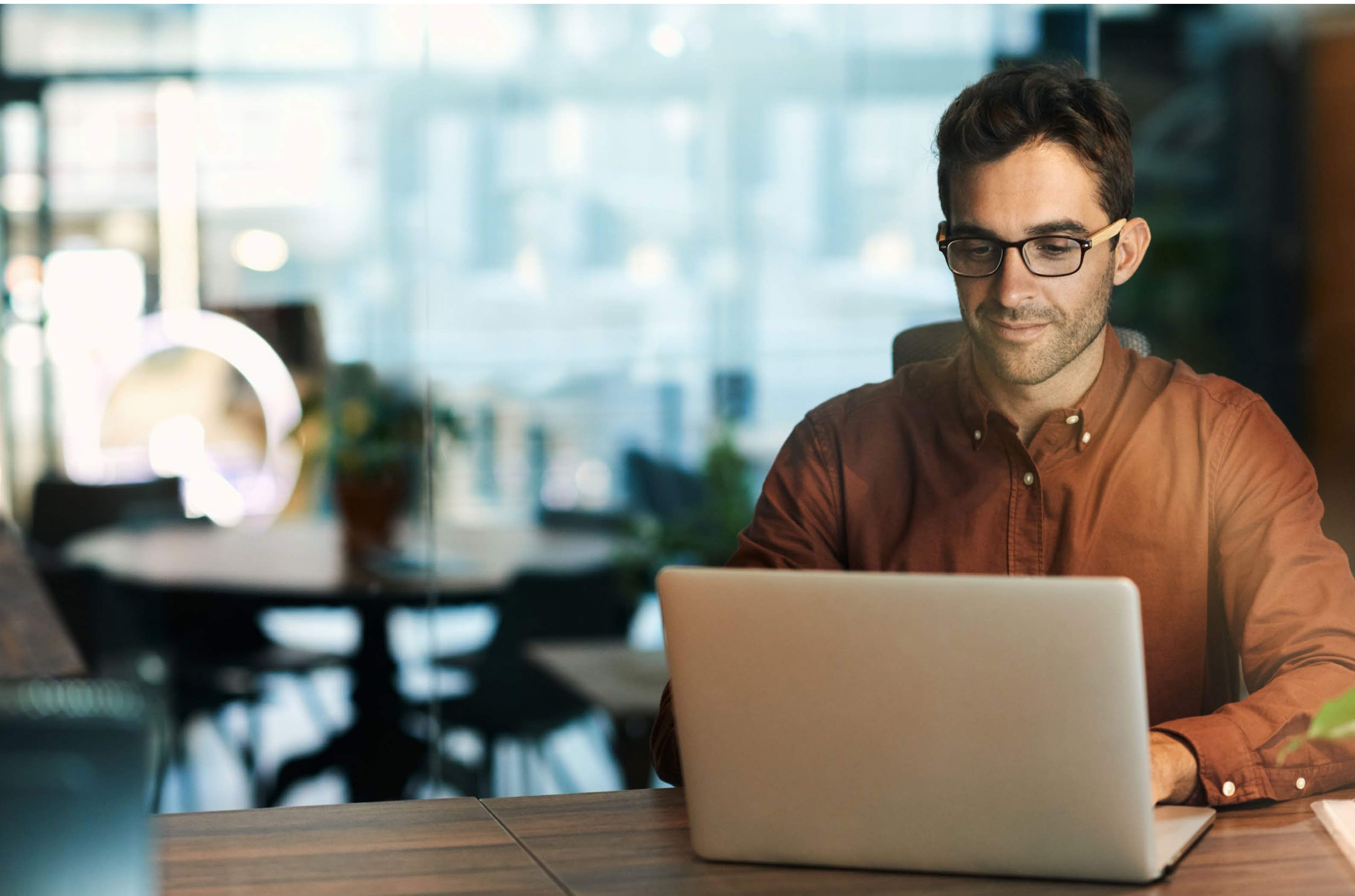
The wide-reaching impact of inflation on most legacy collections processes and customer relationships is discussed in the first article. Sepehri reasserts here the importance of optimizing these activities, keeping teams focused on the tight control of DSO, and of ensuring decentralized AR groups are all working within, and understand, a homogenous strategy.

> **“Simple tasks such as regularly updating customer records, or making sure invoices are created, sent and chased in line with the customer statement of works, are an easy way to sharpen the approach,” advises Sepehri. “But it’s remarkable that many suppliers are still delivering paper invoices by post and are therefore struggling to offer flexible payment options to their customers.”**

The credit approval process is another area that demands regular updating, notes Sepehri. It is, he points out, particularly important to be able to identify increased risk profiles in the customer book when industry is in the midst of such a volatile period.

“There is no getting away from it: when AR lacks control over its processes, the series of incremental losses it faces combine to increase DSO,” states Sepehri. This could lead to the company struggling to contain delinquencies on its debtor book. Average days delinquent (ADD) is a key financial metric that cannot be ignored; key stakeholders are interested. But these elements have a systemic effect too, he adds, with the extra effort and time required unsurprisingly leading to an increase in operating cost per collection, another key financial metric.

“The persistence of sub-optimal AR processes ultimately leads back to sub-optimal cash flows,” warns Sepehri. “Moreover, if DSO is above peers, it will have a detrimental effect on bank covenant monitoring and company valuation. This will slow down plans for reinvestment in strategic areas such as business operations or inventory.” Of course, if slow collections enable customer credit limits to be reached, then sales will be impacted too. With the bottom line impacted, measures must surely be taken.



Ordinary to cutting edge

A solution exists in the deployment of appropriate technology. Indeed, says Sepehri, automation is a successful means of improving AR efficiencies and can be the basis of a highly effective financial decision-making and control framework for DSO.

> **"Switching to electronic invoicing solutions, as opposed to email or paper billing, has proven to be a much more effective method for DSO control, simply because the process eliminates a great deal of the time and effort and injects considerable efficiency into the billing process," explains Sepehri, adding that "it's also harder to 'lose' a digital invoice than a paper version."**

This efficiency boost afforded by digitization also applies to integrated payment processing and invoice software, with the ability for customers to click through from the invoice to initiate a payment clearly a benefit on both sides of the equation. "It's important that supplier companies do everything they can to make it as easy as possible to communicate and deal effectively with customer AP departments," says Sepehri. "Automating these processes leaves no room for doubt and can highlight any actual or potential issues with customer payment reliability."

Where companies have the option to enroll in e-invoicing purchase-to-pay solutions, Sepehri urges them to take advantage. These solutions usually have the option to provide invoice payment status, enabling supplier companies to track invoice payment approvals or rejections more readily. This, he explains, makes it easier from a reporting perspective to understand when a payment is due versus its actual payment date. "This enhances the control methodology that can be applied to AR, which in turn feeds back up through the finance function when making decisions, for example, on customer orders and risk profiles."

Technology has already enabled automation of cash reconciliation. While this is no longer considered a new technology, the software continues to improve, notes Sepehri. As it does so, he believes it will become more prevalent within AR functions, not only for matching payments to invoices but also as a means of spotting trends and weaknesses in the data. "This ties in with the ability of finance functions to apply real-time credit analysis to customer profiles and to compile requisite and appropriate credit terms and capacities. And these are features that support the control of bad debt provisions, and even technology-driven insurance mechanisms."

Resilience today

It's clear that even quite conventional technology has a big role to play across the spectrum of AR activities. It is helping to manage the efficacy of the function, bringing analytical clarity to data and enabling quick decisions to be made. But there is evidence of an increasing appetite for more advanced tools, such as AI, continues Sepehri.

> **"One of the key points of interest now for companies of all sizes is having data analysis and presentation processes simplified and standardized within a single platform. The technology to do this is available, and companies are deploying it. What I believe we will see in the medium term is greater use of this technology to bring all data points together in AR."**

This will be of particular interest to companies with multiple ERPs, where reporting across disparate geographies from fractured data sets has proven challenging. But for those companies where spreadsheets are the rule, not the exception, Sepehri acknowledges that the shift to AI and robotics may sound implausible. It certainly will not be an overnight transformation.

To these businesses, in the short term, he recommends using simple methodologies to develop a clearer understanding of key customer relationships. This starts with DSO but extends to aspects such as their changing credit ratings, often driven today by the economic fallout of inflation and rapid interest rate rises.

However, it is achieved – whether by the latest tools or something rather more traditional – technology deployed within AR can provide deeper insight into customer relationships. This enables businesses to quickly assert control over the financial threats that are detected and take corrective action, especially where those threats will impact cash flow.

As action is deemed necessary, Sepehri believes that a wide range of mechanisms is likely to be employed. Indeed, he predicts increased take-up over the next 12 months for readily accessible debt and receivables financing platforms, which, he says, offer "an effective way to rapidly bring DSO under control and improve cash flow metrics on both sides." And where there is control, there is resilience, which in today's markets is exactly what all businesses need.