Ebook

4 Reasons Cash Application Is the Best Starting Point for AR Automation

Introduction

Why AR matters

To get an idea of a company's overall financial condition, looking at revenues and profits is a good start. But analysing accounts receivable (AR) provides a fuller picture of financial stability and liquidity. Since AR measures the money owed for goods or services already provided, it's important for the survival of the business to have an accurate understanding of incoming cash. Not only does AR have an impact on reducing the reliance on external financing, it enables companies to be nimble and efficient in how they use cash, thereby directly impacting the bottom line. All in all, this makes AR one of the most important — yet the most challenging — elements of a company's financial cycle.

The challenges of efficiently managing AR can be due to the volume of data, the systems utilised, and number of entities involved. Forecasting cashflow is particularly difficult since the business does not have much control over when or even if a customer will pay for the goods or services. If invoice-to-cash processes are efficiently managed it goes a long way towards ensuring a business utilises all the funds it has, and quickly.

About this ebook

One of the main elements of AR is the application of incoming payments. Performing this task quickly and correctly delivers a multitude of downstream benefits. This ebook provides an overview of the advantages of having a reliable and accurate cash application process, and why it's the best starting point for an AR automation project.

What's inside?

Why automating AR is a great idea

Who doesn't want their job to be easier? Automating key AR processes significantly decreases repetitive, manual tasks and streamlines entire workflows. Automation ensures that the three basic phases of AR — invoicing, collecting payment and then reconciling the two to ensure that the information matches — interact cleanly and efficiently.

Benefits for the AR team

Simplify processes:

- Reduces manual tasks, such as repeatedly entering key data points into spreadsheets or printing
- Frees up teams work on higher-value tasks
- Simplifies the payment-reconciliation process
- Sends automated communications, both internally & externally
- Tracks different payment types & monitors all aspects of collections, such as establishing early payment incentives
- Provides a complete overview of the customer journey, from order placement to allocating payments

Facilitate payment collection:

- Increases the chances of collecting payment in a timely manner
- Reduces the risk of billing errors & invoices customers faster
- Provides real-time reporting on the status of invoices & payments

Improve the customer experience:

- Sends invoices & other documents in a format that the customer prefers
- Provides greater accuracy for billing, payment reconciliation & credit decisions, which creates trust in the company and reduces customer complaints

Benefits for the Office of the CFO

- Accelerates workflows & invoicing, which results in faster payments & improved cashflow
- Decreases DSO & write-offs
- Facilitates cashflow visibility
- Reduces costs by decreasing paper & ink usage, postage & delivery fees
- Makes compliance easier, especially for companies operating in multiple geographic locations
- Provides accurate reporting & analytics

Benefits for the whole company

- Promotes the attraction & retention of talent by offering meaningful work & creating opportunities for professional growth
- Balances workloads with customisable workflows & improved visibility
- Improves communications with internal conversations & approval workflows
- Creates resilience for the entire business ecosystem

If these points haven't convinced you yet that automating AR is a great idea, how about the fact that 85% of companies are in the process of changing their financial operations models by introducing automation?[1] Or that according to a 2021 study, 62% of businesses saw their DSO improve after automating processes?[2]

If this has piqued your interest, let's dive into the question what the best starting point is for revamping your company's AR processes.

1,2 How CFOs Can Take a Holistic View to Transform the Finance Function. EY Global, Dec. 2, 2022.

Why start with cash application?

So now that we agree that automation can make a substantial positive impact when it comes to AR, the question remains: Where to start? You might be tempted to say: Collections! Of course I want to collect all the money I'm owed! Not so fast …

Here are **4 reasons** why correctly allocating payments can make all the difference.

01 Retain control over cashflow

Even if you actually get all outstanding payments collected, you now have a (hopefully large) chunk of cash sitting in your bank account. But how do you know if this is money you can actually use? When receiving a payment, it needs to be correctly allocated to ensure that the money is rightfully yours. Only once this is verified can it be used to fund payroll, make investments or to disburse profits to shareholders. And the faster the cash is applied, the faster the company can use it.

Additionally, if short payments are identified too late or misidentified, those amounts are often written off, especially if it's below a certain threshold. The average margin loss for written-off amounts is 3.7%.[3]

This is one of the main reasons for having accurate books.

3 IOFM. How Automating the Managements of Customer Deductions Reduces Time, Complexity and Cost in Accounts Receivable. 2018.

Avoid miscommunication with customers

Nobody likes being reminded to do something, especially if it's something that's already been taken care of. Asking a customer to make a payment they have already made doesn't just look unprofessional, it can also irritate them, to the point where they might start thinking about taking their business elsewhere.

There's also the case of sales made on credit, where the supplier agrees that payment will be made by the customer at a later date. If the customer uses the entire line of credit, usually additional purchases are halted until the previous invoices are paid. If a buyer sends a payment to a supplier, but the supplier's cash application process is slow, then replenishment of the buyer's credit will be delayed. This increases the chances that the supplier will miss out on sales they could have made between the moment they received the buyer's payment and the application of the funds (i.e., replenishment of the buyer credit). Situations such as these can often create tensions with the Sales team as well, as they are often the contact person for customers.

03

Keep costs under control

It’s no secret that time-consuming processes end up costing a business, both directly in labour costs and indirectly in that the longer it takes to resolve issues, the lower the chances are that you will end up receiving the full payment. Besides offering improved cashflow and a better customer and employee experience with touchless capabilities as well as built-in AI technology and analytics, modern automation platforms can reduce past-due receivables greater than 90 days by 63%. For a company with around $10B in revenue, this can mean up to $107M per year in additional operating cash.[4]

Honestly, who wouldn't want to see some extra cash in their wallet?

4 Hackett® Redefines Software & Service Market Intelligence by Analyzing What Truly Matters — Value Realization. BusinessWire, March 29, 2023.

04

Understand exactly where your business stands financially

Similar to point #1, if you only have a vague idea of how much working capital the business has, it is difficult to make forecasts about revenue, resources needed, and supply chain planning. Having a clear picture about these factors will help you assess whether the company is moving in the right direction, reduce financial risk and create stability and certainty for your business.

What have we learned? That applying cash correctly gives you visibility over what you actually have.

Success story

Fletcher Steel™

Needing to process between 200-1,000 transactions a day, this building product manufacturer and distributor struggled with missing remittances that resulted in large amounts of unapplied payments. Increased volumes and time-consuming manual processing of complex remittance advices with hundreds of lines meant a 5:00 a.m. start for the team at month-end closing.

Cash application automation eliminated the need for manually matching payments received from multiple sources and provided increased efficiency. Automation has significantly reduced processing time for large remittances with 800+ line items from 2+ hours to mere minutes. From remittance capture to reconciliation of matched invoices into the ERP system, the cash application solution not only optimised the allocation of incoming cash but also downstream processes such as collections by centralising all the payment information.

Results after automation

- Decreased unallocated payments by 30%
- Sped up remittance processing time by 95%
- Reduced processing time by 40%
- Freed up team members for other tasks
- Increased team well-being

Conclusion

If we've done our job correctly, we hopefully convinced you that giving your AR team a leg up with cash application automation doesn't just result in an improved work experience for them, but also better visibility for everyone in the company's food chain. Most importantly, a comprehensive automation solution can make a substantial, positive impact on the bottom line.

Does introducing automation into the AR process seem like a daunting task? Start by running a little analysis to determine where exactly your company's AR process stands and pinpoint which parts of the cash application process might benefit most from automation.

How we can help you automate your cash application process

- Identify pain points & opportunities for improvement
- Provide in-depth information on how a cash application solution works
- Create a mindmap or image board for what results you expect
- Generate detailed analyses of pre- & post-implementation
- Calculate ROI & the payback period
- Share best practices from companies in similar industries that have successfully automated their cash application processes

Ready...set...GO!

Hi, we're Esker

Founded in 1985, Esker is a global cloud platform built to unlock strategic value for Financial, Procurement and Customer Service leaders and strengthen collaboration between companies by automating source-to-pay (S2P) and order-to-cash (O2C) processes.

38

years of experience with 20+ years focused on cloud solutions

1,000+

employees serving 850K+ users & 1,700+ customers worldwide

15

global subsidiaries with headquarters in Lyon, France

€159.3

million in revenue in 2022, with 90+% of sales via SaaS activities

Business success is best when shared

At Esker, we believe the only way to create real, meaningful change is through positive-sum growth. This means achieving business success that doesn't come at the expense of any individual, department or company — everyone wins! That's why our AI-driven technology is designed to empower every stakeholder while promoting long-term value creation.

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