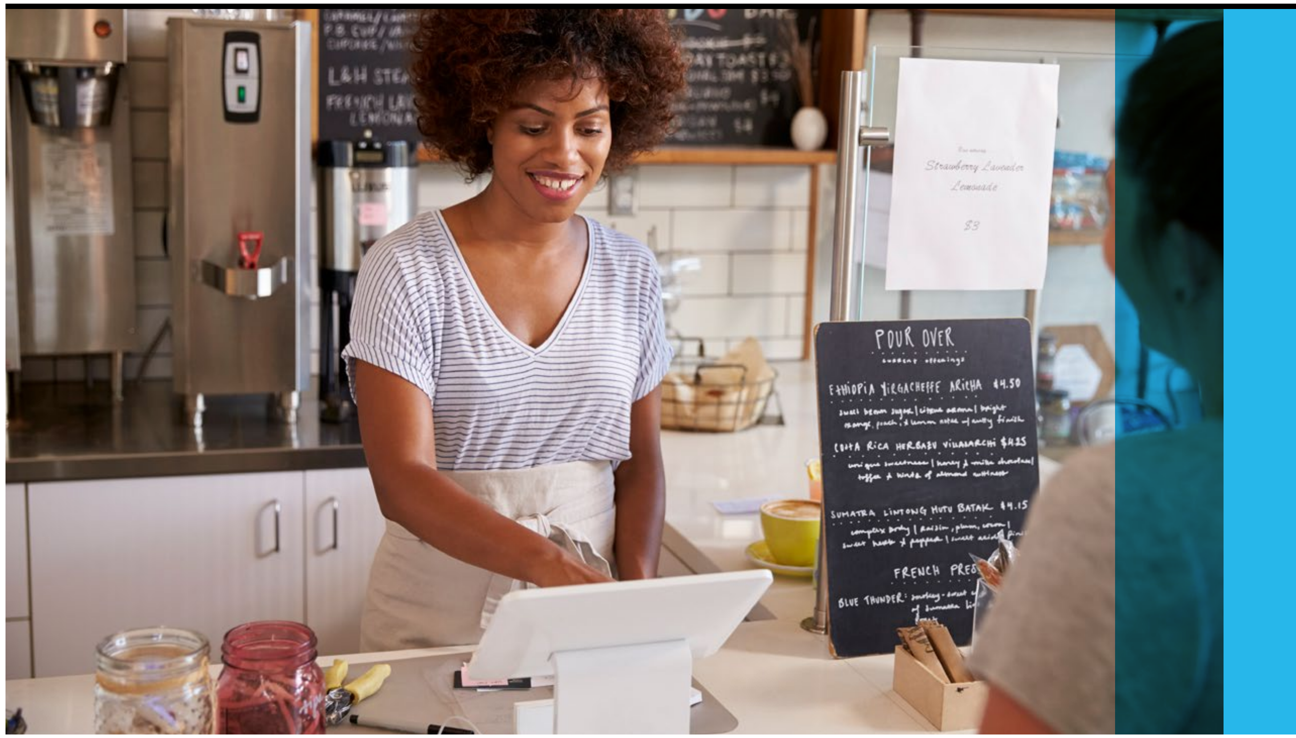
Cut the back-office chaos in 2020

Commercial customers need simpler, more-efficient payment solutions.

BY STEPHANIE FOSTER AND DENNIS WANG



In order to be considered customer-focused in all areas, including payments, many businesses have unintentionally created chaos in their back office. They've added new payment channels even as old methods, such as checks, have refused to die.

Companies today may accept six or more payment types to keep everyone happy — and each channel has its own system and workflow. While the migration to e-payments has benefited buyers, these payments and the manual handling of associated remittance-matching makes the process burdensome for many suppliers, to say the least.

Payments often arrive separately from remittance information, or in different formats. Remittance data usually must be re-keyed, which makes it vulnerable to errors. In fact, more than half of payments received cannot be processed without some manual intervention, even electronic payments like ACH, according to Aite Group reports from 2014 and 2018.

Only 16% of corporations report a straight-through processing (STP) rate of 97% or above, Aite reported. Low STP rates can prove time-consuming and costly for corporations. The greatest impact shows through in the operational inefficiencies that corporations are not staffed to accommodate. One-third of corporate treasury professionals report that better tools could eliminate over half of their exceptions, or more, according to Aite.

Challenges in the back office cascade throughout the organization. The longer it takes accounts receivable (AR) to recognize and apply cash, the longer it takes recipients to access funds. Not applying cash in a timely manner misstates the organization's true AR position at both the corporate and customer account levels. It becomes difficult to determine which accounts are actually past due, impacts the extension of trade credit and can create an audit risk. Many businesses have added full-time employees just to keep AR processes in motion.

That's why, in 2020, commercial customers will finally say "enough."

TWO STEPS FORWARD

The path toward simpler, more efficient AR has two parts: automation and integration. And financial institutions have the opportunity to provide this two-part solution to their commercial customers.

Automation tools can crush some of the roadblocks slowing down AR. A combination of artificial intelligence (AI), machine learning (ML) and robotic process automation (RPA) can eliminate most of the manual steps associated with cash application today.

- *RPA and AI can capture and extract key account details quickly, accurately and automatically*
- *Algorithms can deliver high match rates, drastically reducing the need for manual intervention*
- *Pre-set workflows can automate deposits, calculate deductions and create minimal exception lists*

Automation eliminates much of the heavy lifting — and thus the cost — of processing. In their research report, The State of ePayables 2018: The Future of AP is Now, Ardent Partners calculated the cost and time to process electronic invoices in 2018. It found the top 20 percent of payers can process a single invoice 2.5 times faster and five times cheaper than their peers.

In the coming months, businesses will seek simpler and faster processing. Integration will ensure that faster also means better.

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STRAIGHT TO ROI

Integrated payment models address a company's payment strategy in total, versus improving a single step or channel. In fact, integrated solutions aren't bound to payment channels.

Picture this: Businesses will funnel payments from all their recognized channels into one system. Then, remittance data will automatically match to open files, regardless of the format or time it arrives. Once processed, the transaction posts to the billing system without a human ever touching it.

And, thanks to automation tools, exceptions are minimal and easier to resolve because staff don't have six or seven systems to investigate.

STP is the "holy grail" of payment management. And it's achievable.

MODELING THE FUTURE

Automation enables faster processes that are more information-rich. Integration gives businesses greater visibility and control. Working as one enterprise (rather than as a department or channel), companies can compress the cash conversion cycle to their greatest benefit.

Forward-thinking companies are merging their accounts payable (AP) and AR functions to achieve strategic advantages. Traditionally, the two have run separately — one group maximizes the timing of payments, while the other addresses collections. Money goes in and money goes out.

Advanced companies are running AP and AR together to affect working capital. For example, companies can strategically delay payments or speed up collections to change their cash on hand. By leveraging new approaches, the back office can extend its impact well beyond traditional boundaries.

To influence working capital, companies need accurate and accessible insight into their cash. Yet, about a third of corporate users rely on spreadsheets to get a consolidated view of their receivables, according to Aite. A single platform that captures cash-in and cash-out is simpler and faster than mashing spreadsheets together, and it provides better visibility into a company's financial status.

OPPORTUNITY FOR EVERYONE

Commercial customers want to cut the chaos. They desire simpler, more-efficient workflows and fewer hands-on processes. A trusted financial partner can help its commercial customers design more effective and efficient payment models.

By alleviating a major pain point, financial institutions get happier commercial customers and greater customer insight. Integrated AR/AP represents a new revenue source for financial institutions and a strategic way to increase deposits and non-interest income. Finally, a win-win.

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