White Paper

Unlocking liquidity and flow of funds

Leverage artificial intelligence and machine learning to transform accounts receivable management

Introduction

The management of working capital, particularly accounts receivable (AR), is a critical measure of any company's financial health. However, managing AR is growing ever more complex and resource intensive for businesses, threatening to distract them from strategic goals such as driving growth and responding to competitor activity. Increasing transaction volumes, plus the need for greater visibility and insight, mean the methods devised in the early digital era are no longer providing businesses with the efficient, scalable AR support they need. This can create additional risk for the business, as it can present a misleading or incomplete picture of its true financial position.

At the same time, the roles of Finance Leaders, including CFOs and CTOs, have broadened considerably. Today they are required to be strategic leaders, actively shaping and steering their functions towards value creation. CFOs must be relentless, resourceful and creative in finding new ways to unlock additional value from their operations. They must incorporate best-of-breed financial technologies into their collections and credit control strategies. This will enable finance teams to maximize revenue through automated processes, improving accuracy, proactively identifying risk and providing actionable insights to minimize revenue leakage and optimize cash flow. They must also provide collaborative support and value to their customers, ensuring that lifetime value is optimized.

This paper sets out why there is growing pressure on AR and how technology can help alleviate the strain on businesses through the introduction of efficient, automated processes and the encouragement of better customer behaviors. It also outlines how this can not only help to manage risk and reduce cost, but create new opportunities to strengthen and enrich customer relationships, driving durable, long-term value.

According to a study recently conducted with Wakefield Research , the typical upper-mid-sized company struggles with **more than $4 million worth of unpaid invoices each month.**

And if **1.5%** of that monthly $4 million becomes **bad debt**, it adds up to

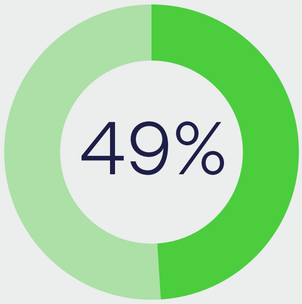
$720,000 a year.[1]

[1] https://www.versapay.com/resources/better-invoice-processing-payment-portal

According to a study by PYMNTS.com[2] and American Express, companies using manual processes to follow up on overdue payments take

67%

longer to collect than those that employ **automated AR tools.**



Nearly half of firms identify manual processes as one of the three most problematic elements of AR management.

Why businesses are feeling the heat

In the US there is increasing evidence of growing levels of bad debt among businesses. And although prudent firms are making realistic allowances for this, recovery is costly and often proves extremely difficult. To further complicate matters, discrepancies persist between the amounts that businesses and their customers claim are due.

While factors such as higher interest rates and the cyclical nature of the global economy are undoubtedly contributing to the struggles faced by many businesses, these can be exacerbated by systemic operational issues in the management of AR. Inadequate remittance advice and outdated reconciliation systems can make it harder to match payments with corresponding debts.

By persisting with outdated systems, businesses are inviting errors, inconsistencies and inefficiencies into their AR processes. These can not only make AR slower and more costly to support, but can result in heightened credit risk, increased eventual write-offs and can exacerbate difficulties in managing customer relationships.

How modern systems can streamline AR processes and drive growth

The management of delinquency and recovery has never been more important for business health, nor so critical to cash flow. Businesses must take a far-sighted, strategic and technology-led approach to this growing issue.

Today's best-in-class products provide a clear, precise and up-to-date view of AR. They vastly improve process accuracy and efficiency, reducing reliance on cumbersome, labor-intensive and error-prone manual tasks. They also provide reliable and timely insight into customers likely to experience payment difficulties. This offers businesses invaluable time to make an earlier intervention with their customer, reducing their exposure to bad debt and preventing valuable, long-established relationships from deteriorating.

These benefits can help transform the finance department into a key driver of business growth, protecting and enhancing the financial health of the business, while delivering a fast time-to-value.

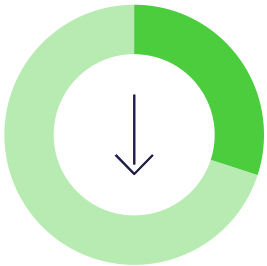
Leveraging powerful, next generation capability

As a volume-based function, whose performance is highly measurable and quantifiable, AR is ideally placed to harness the powerful emerging capability of Artificial Intelligence (AI) and Machine Learning (ML). Not only can these capabilities instantly compile accurate information on a customer's status, but they can make rapid, evidence-based recommendations on what next actions to take. This gives the business crucial time to address any emerging issues with their customer and manage the situation to a favorable outcome, protecting the long-term value of the relationship.

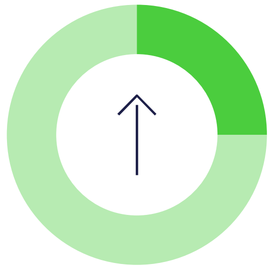
These capabilities also have the advantage of almost limitless scalability. This means that growing businesses can avoid the distraction of regularly revisiting supplier relationships or selecting new tools to support their AR function. And their increasing efficiency and precision also enables companies to improve their cash flow forecasts, reduce payment defaults and optimize their revenue recognition.

[2] https://www.pymnts.com/news/b2b-payments/2021/firms-that-rely-on-manual-processes-take-67-more-time-to-follow-up-on-overdue-payments/

Accounts receivable departments that automate their collections processes...



reduce past-due invoices by **30% or more**



and increase payment speed by **25% or more**

Three key areas where these technologies can be applied to support more effective AR are:

01 Predictive analytics

Automated analysis of historic payment patterns to predict future customer behavior, giving businesses vital time to take early preventative action and manage the customer appropriately.

02 Real-time insights

Creating an accurate snap-shot of collections data, supporting informed, timely decision-making, and helping businesses adapt their overall AR strategies to reflect changing circumstances and demands.

03 Personalized customer engagement

Precise, targeted messaging to support, encourage or reward customers based on their behaviors and expedite payments.

How these capabilities can drive business performance through enhanced AR

Automated payment reminders

A large part of encouraging timely payment is communication. This applies as much to 'What to say', as 'When best to say it.' Payment delays are often simply a result of customer oversight and not an inability to pay.

Through the power of AI, chatbots can contact customers at set times and through a range of both digital and traditional channels including surface mail and voice messages, issuing personalized payment reminders. To optimize effectiveness, they can automatically analyze behaviors at an account level, including historical payment patterns, tenure, preferences and other data and adapt their approach accordingly.

Through these tailored, targeted payment reminders, faster and more reliable payment can efficiently be achieved without negatively impacting the customer relationship.

Exploiting ML-powered data to spot issues faster

One of the most crippling issues affecting AR teams who are relying on traditional methods of managing accounts, is failing to swiftly identify accounts at risk of delinquency.

This can be as simple as observing a change in historical behavior, but can include any number of other traits that can signal future payment difficulties. Supported by ML, these risks can be identified and assessed automatically, using a wide range of evidence-based insights, creating valuable time for organizations to act and to take appropriate measures such as reviewing payment terms.

Introducing ML-driven insights can be key to preventing the early indicators of payment difficulties from becoming larger issues that are more difficult and costly to address and can harm business health.

Influencing customer behavior through targeted rewards

The social science of behavioral economics has revealed a wealth of insights that show how a customer's actions can be shaped through small but timely interventions. These principles can be successfully applied to AR. Using predictive insights, a customer can be influenced to establish and maintain a pattern of timely payment using incentives which might include discounts or loyalty rewards.

The value in this approach lies in the ability to do it efficiently, cost-effectively, at an account level and at scale. Not only can AI-powered automation deploy tailored strategies across an almost unlimited number of accounts, but it can also learn which incentives are most effective. It is also possible to test and compare different incentives and offers and conduct a cost-benefit analysis of each.

This technology empowers businesses to develop and deliver creative, effective and profitable strategies to expedite payment, while also building customer loyalty.

Shaping customer behavior through tactical messaging

As well as offering incentives, advanced AR technology can act as a CRM platform to communicate with customers. For some customer segments, firms may wish to impress on customers the benefit of paying on time or to point out that the majority of their customers do so.

For others they may wish to use messaging that communicates a sense of urgency and prompts immediate action. As with many of the other ML-based strategies seeking to encourage timely payment, the system constantly learns optimizing its messaging and message timing and evaluating the results accordingly.

Similar to the program of targeted rewards, tactical messaging represents an excellent additional opportunity for businesses to invest in the customer relationship and measure how best to effectively balance frequency and content of message to improve payment behaviors.

Conclusion

For organizations with old or under-invested AR systems, the 'do nothing' cost grows higher by the day. There is even a potential risk that customers who become aware of a supplier's ineffective AR system may use this information to deprioritize their payments to that supplier when times are tight.

With ever greater pressure on CFOs and CTOs to unlock incremental value from their businesses, an efficient, flexible, AI-driven approach to AR is perhaps one of the most effective investments to consider. Secure, scalable and customizable, a modern system can process vast amounts of data on customer accounts and exercise intelligent decision-making to optimize returns.

Advanced AR tools can also help to strengthen customer relationships and augment brand reputation by delivering an efficient, high-touch communication program to build customer loyalty and advocacy. Perhaps most importantly of all, as an ever-vigilant observer of customers' patterns of behavior, its ability to scan the horizon for future risks of payment delinquency is invaluable.

Finally, effective collaboration between finance, technology and AR teams is essential for the success of collection strategies. Working together and powered by tomorrow's innovation, these teams can turn finance from a cost center into a growth partner.

Discover how FIS® Automated Finance is helping CFOs and CTOs play a decisive strategic role in their organizations by delivering a comprehensive suite of receivables, payables and revenue optimization tools that remove friction to help move money, unlock revenue opportunities and give you the confidence and capabilities to grow.

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