highradius

Insights From The Hackett Group: Accounts Receivable Moves to the Top of the CFO Agenda

Executive Summary

Market disruptions have intensified CFO's emphasis on liquidity management. The latest Hackett Group study on CFO priorities in 2020 shows that CFOs of 75% of organizations took steps to optimize working capital practices, and 79% intend to make these changes permanent to bolster cash flow.

As a result, CFOs are increasingly focused on automating the Accounts Receivable (A/R) process to shorten the cash conversion cycle and track the health of the receivables portfolio.

In this whitepaper, we will talk about the reasons why A/R automation is becoming a strategic priority for CFOs and explore the following themes in detail:

- **The Changing Perception of Account Receivables Function**
  The A/R function has fallen under the CFOs spotlight to enhance liquidity and optimize working capital.

- **Driving Agility With Smart Automation Technology**
  Pressure to quicken the cash conversion cycle has increased interest in cloud-based digital solutions for enterprises.

- **Regular Monitoring and Reporting Ensures Successful Transformation**
  A holistic approach to measuring the impact of automation initiatives by defining and tracking a set of lagging and leading indicators.

- **Short and Long-Term Business Benefits when Making Technology Choices**
  Control and visibility, cash forecast accuracy, and value-added work.

CONTENTS

CHAPTER 01

The Changing Perception of The Account Receivables Function

Using publicly available financial data for the top 1,000 U.S. companies, the Hackett Group observed that businesses were sitting on $1.3 trillion in unused working capital, including nearly $4 billion in A/R.

With the CFO's spotlight falling directly on the A/R function to extract this unused capital, A/R leaders have a golden opportunity today to make an actual dollar value impact in the CFO's office. They must work with their team to optimize critical A/R operations like credit risk management, collections, and payments to meet the current business needs.

Hackett's Credit and Collections Performance Study (2019) found that customer-to-cash top performers have a better edge than most typical organizations (i.e., their peer groups) in most process metrics, some of which are mentioned below.

40%
of top performers have automated their credit reviews, increasing the completion rate for new credit reviews

75%
reduction in billing mistakes with lower dispute-resolution expenses and higher customer satisfaction.

0.6 days
Average delinquent days (ADD) from previous 2.7 days

CHAPTER 02

Driving Agility With Smart Automation Technology

The Covid-19 Response Poll conducted by Hackett (April 2020) found that, despite the recession, almost all finance organizations were moving ahead with their digital transformation initiatives. In addition, nearly 64% of finance organizations were launching new digital projects.

To meet the finance leader's plan to fast-track the cash conversion cycle, A/R leaders must find an intelligent cloud-based solution that allows room for collaboration across the order-to-cash function.

With both social and economic factors impacting the business dynamics every day, the expectations from the solution today have grown to:

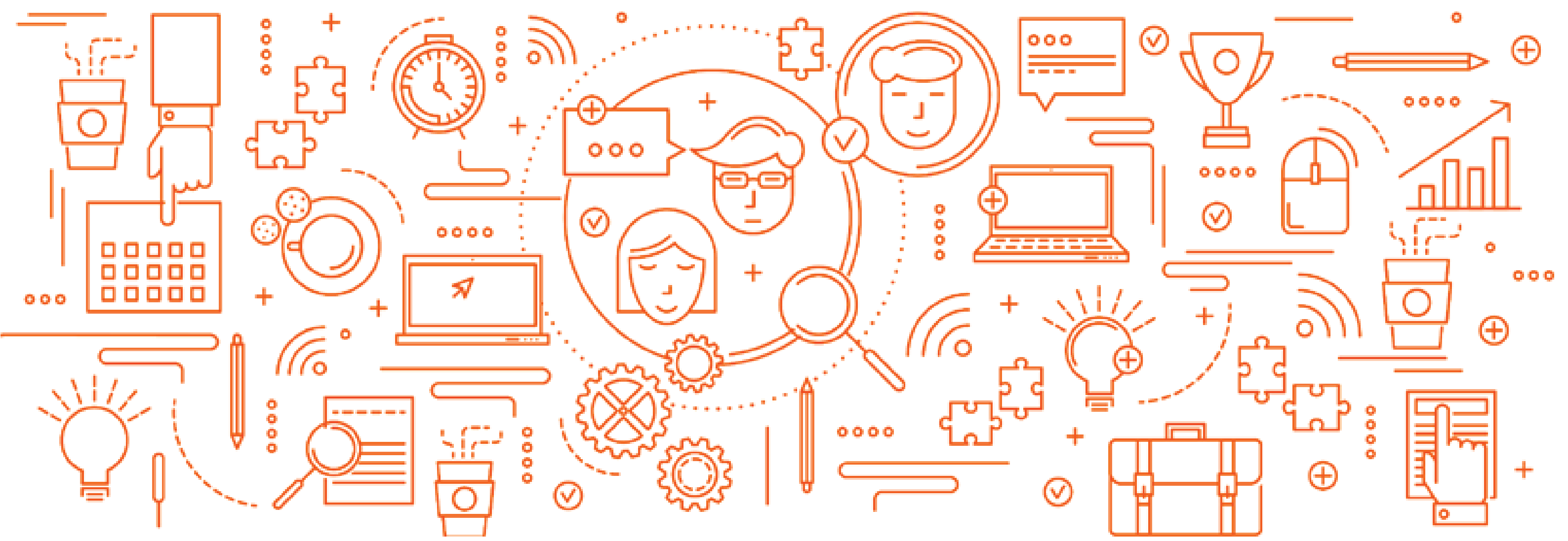
- **monitor credit risk in real-time,**
- **accurately capture information from the payment documents produced by customers,**
- **consolidate data from multiple sources and**
- **build a 360-degree view of an account level.**

And it's not just the solution; even the A/R team is required to evolve and become more strategic in their role by making informed decisions backed up by data. These expectations have now exposed the limitations of Robotic Process Automation (RPA) and brought Artificial Intelligence (AI) capabilities to the forefront with its power to enhance the team's decision-making ability with speed and accuracy.

RPA	AI
Simply mimics the user's action as trained	*Mimics the human thought process based on patterns*
Processed data fed in a structured form	*Processed data fed in a structured, semi-structured or even unstructured form*
Strictly a rule-based automation	*Behaviour evolves with experience and exposure to data*
Definite and static	*Probabilistic and variable*
Needs regular human intervention	Can function without regular human intervention

Today, leaders in the RPA market like Automation Anywhere and UI Path acknowledge that simply having RPA isn't enough- it needs to be converged with AI to deliver real-time business value like credit risk monitoring.

This could only imply that getting the right tool for your A/R isn't the end of building your technology stack - you need to ensure you have a force like artificial intelligence to power it forward.



CHAPTER 03

Regular Monitoring and Reporting Ensures Successful Transformation

Accounts receivable technology should address immediate challenges while also providing sustainable, long-term benefits.

To ensure the new automation solution delivers the expected results, organizations need to establish a comprehensive set of process KPIs at the start of the project. The KPIs should then be aligned with the technology partners and monitored frequently.

Process KPIs should include leading and lagging indicators. The latter includes reduction in bad debt, percentage of current receivables, Average Days Delinquent(ADD), analyst productivity, and cash application cycle time. However, these metrics look back on the events that have already occurred.

In contrast, leading indicators, which look forward at the future outcomes and events, include risk-class changes from credit reviews, percentage of dispute/deduction auto-coded, and the number of outbound collections calls, which can be monitored in real-time.

In addition, organizations should adopt a holistic approach to measuring the impact of their automation initiatives by looking at efficiency, effectiveness, and customer experience metrics

Efficiency	Effectiveness	Experience
Process cost as a percentage of revenue	Percentage of credit reviews completed with all required data	Percentage of customer orders that require correction (order accuracy)
Process cost as a percentage of credit sales	Days Sales Outstanding (DSO)	Percentage of customer invoices that require correction (billing accuracy)
Number of FTEs per $1 billion in revenue	Average Days Deliquent (ADD)	Average dispute resolution cycle time (elapsed time)
Number of invoices processed per FTE	Percentage current receivables	
Cycle time to process a customer order	Percentage of receivables greater than 60 days past due	
Cycle time to create and deliver customer invoices	Percentage of disputed receivables ($ value)	
Cycle time to post/apply customer payments	Percentage of unapplied cash	
Cycle time to resolve customer disputes		
Cycle time to perform credit evaluations		
Percent of electronic invoices		
Percent of electronic payments		

Increasingly, digital transformation is less about reducing manual labor and more about creating new ways of working with the end-user and freeing up the team's capacity to focus on high-impact strategic activities, which require human intervention.

In Hackett's Key Issues Study (2020), respondents listed the ability to provide better insights to support the senior management decisions as the top benefit they expect from digital transformation.

CHAPTER 04

Recommendations By The Hackett Group

Economic uncertainty and Covid-19 related disruption continue to threaten revenue, driving interest in leveraging new technologies to automate the accounts receivable process. However, A/R leaders cannot execute such efforts overnight.

The choice of the solution must be strategic and aligned with the business needs. It must also integrate with other parts of the order-to-cash cycle, such as sales, inventory, and accounts payable.

Hackett's research shows that organizations involving the credit function early in the sales process – during the proposal and pricing-development stages report 8.4 days lower ADD than those that do not. Furthermore, finance organizations with a high degree of end-to-end process ownership employ 30% lesser staff on low-impact, transactional tasks like data aggregation from different sources and spend 27% less on finance as a percentage of total revenue.

In addition, A/R executives need to consider both short and long-term business benefits when making technology choices.

Having End-to-End Control and Visibility

The business objective should be to focus on enhancing the A/R team's ability to pull in cash more quickly and optimize the working capital. Real-time monitoring of credit risk enables a proactive collection strategy and, in turn, reduces DSO.

- **Short-term:** Review customer creditworthiness more frequently to minimize risk to the business by pulling real-time data from credit bureaus, continuously collecting internal payments data, and leveraging AI-powered prioritization to target collection efforts. Additionally, sharing the account-sensitive information with internal teams like Sales to allow for profitable growth.

- **Long-term:** Deploy standardized but flexible global credit policies aligned with the business goals and enabled with technology to help with proactive identification of at-risk accounts. This will, in turn, lead to a smoother cash flow and the credit-collections team becoming a sales enablement function.

Reallocating Team to High-Impact Strategic Work

As mentioned earlier, most finance functions rank the ability to support management decisions to be the principal benefit of transformation. In addition, automation enables reallocating the staff to more value-added, strategic tasks such as risk analysis, customer segmentation, and proactive collections. This helps increase team productivity.

- **Short-term:** Expand the collection team's bandwidth so they can cover more accounts using risk-based frameworks to target collection activities, automate cash application, and reduce deduction overload.

- **Long-term:** Fully automate all routine work and embrace an omnichannel service delivery model designed around the customers' needs.

About HighRadius:

HighRadius is a Fintech enterprise Software-as-a-Service (SaaS) company that leverages Artificial Intelligence-based Autonomous Systems to help 600+ industry-leading companies automate their Accounts Receivable and Treasury processes.

The HighRadius® Integrated Receivables platform reduces cycle times in your Order to Cash process through automation of receivables and payments processes across credit, electronic billing and payment processing, cash application, deductions, and collections. The HighRadius® RadiusOne A/R Suite offers a pocket-friendly platform for hundreds of midsized businesses to enable faster A/R processing and enhance their working capital. HighRadius® Treasury Management Applications help teams achieve touchless cash management and accurate cash forecasting.

Powered by the Rivana™ Artificial Intelligence Engine and Freeda™ Digital Assistant for Order to Cash teams, HighRadius enables teams to leverage machine learning to predict future outcomes and automate routine labor-intensive tasks.

Processing over $2.23 Trillion in receivables transactions annually, HighRadius solutions have a proven track record of optimizing cash flow, reducing days sales outstanding (DSO) and bad debt, and increasing operational efficiency so that companies may achieve strong ROI in just a few months. HighRadius is the industry's most preferred solution for Accounts Receivable & Treasury and has been named a Leader by IDC MarketScape twice in a row.
To learn more, please visit www.highradius.com

Autopilot for

Order to Cash & Treasury

Automation, prediction & insights
powered by Artificial Intelligence

Learn More

Get in touch

AMERICA

Corporate Headquarters
Houston
+1 (281) 968-4473
+1 (281) 404-9002

APAC

India
+91 (040) 4569 4500

EUROPE

Amsterdam
+31 (20) 8885054

London
+44 (0) 203 997 9400

Frankfurt
+49 (0) 69 589967310

info@highradius.com