November 2021

E~Credit News

BCMA

Business Credit Management Association

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Following are some very important DON'TS when you participate in an industry credit group:

- DON'T jointly determine to whom sales are to be made or to whom credit is to be extended or what those terms should be
- DON'T establish joint or uniform prices, terms or conditions under which sales will be made or credit extended
- DON'T limit production or establish quotas
- DON'T divide markets
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- DON'T plan any of the following with a competitor; prices; terms of credit or sale; profit margins; sales discounts or allowances; production costs and expenses; transportation rates; production or research and development; market areas or sources; product or packaging standardization
- DON'T participate in any activity that would limit the exercise of free judgment by members of the management team of any company in the industry group
- DON'T act in concert with fellow members to effect any of the above acts before, during or after the meetings of the industry group
- DON'T receive the benefit of any illegal activity

What Is the First Thing You Should You Do?

Contact the Business Credit Management Association which is the leading resource for credit, accounts receivable and financial management, providing information products and services for effective business credit, collections and receivables. BCMA provides a complete toolbox of services from business credit reports, commercial recovery, chapter 11 services to publications and educational conferences, seminars, programs and professional accreditation.

Business credit is the single largest source of business financing by volume, exceeding even bank loans. It is the credit extended between businesses that is the fuel that drives the engine of today's commercial economy. As companies struggle to maintain or expand their customer base in these challenging economic times, business credit risk management professionals make decisions, daily, that are key to the stability, growth and success of any business.

You extend credit to customers based on information you have about that customer. Others also are likely to extend credit to that same customer. Some may have information about that customer that you do not have. Neither you nor those in your industry want to enter into a business relationship with a customer who might want to perpetuate a fraud. Wouldn't it be helpful to pool information in order to develop a more complete "picture" of the business environment you work in? The Business Credit Management Association (BCMA) offers the opportunity to do so through industry credit groups.

If you have something you would like us to announce please send an email to admin@wcacredit.org

Subject line: Member News

New Association Contacts:

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Nordco

Angie Staton
Mueller Sports Medicine

WINNING STRATEGIES FOR THE FUTURE OF FINANCE

By: Nancy Zhang, CFA, Director Solution Success, Serrala

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Abstract

Strategies for safeguarding liquidity are paramount for companies, especially in times of crisis as the past year has demonstrated vehemently. While industries were affected very differently, one thing they had in common was the need for better visibility. CFOs and finance teams have turned the lessons into concrete steps to focus their business strategies on adopting solutions. Technological solutions provide greater cash transparency and operational continuity in changing work environments. Importantly, for these technologies to deliver complete transparency, they need the right data from a broad range of data sources in a fast and reliable way. In this article, we will look at the key hurdles and challenges that need to be overcome to achieve cash excellence, and how integrating and automating processes cross-sectionally in a central cash visibility hub can improve cash forecasts.

The Need for Central Cash Visibility

The economic turmoil caused by the COVID-19 pandemic led to rapidly changing priorities for CFOs and their finance teams. When supply chains were disrupted and customers strapped for cash were delaying or defaulting on payments, they had to secure access to liquidity. For business continuity, it became critical to secure credit, identify short- and medium-term cash needs, and measure financial risk exposures. In the United States, for instance, half of small and medium-sized enterprises (SMEs) operate with less than 27 days of cash reserve, but even large companies were strapped for cash when lockdowns hit back in 2020.

How much money do I have in my back pocket? This became the key question for CFOs and finance teams as they quickly started looking for available cash in their accounts. During that exercise, many of them realized that existing systems and processes were insufficient for delivering insights into cash positions, cash flows and future liquidity needs. Cash overviews were not up-to-date or accurate and cash-relevant data had to be manually collected and consolidated. Spreadsheets clearly showed their limitations in those times of crisis, when fast and accurate information was even more important than ever before. Knowing how much cash was available to the company at the right time was essential. If knowledge of internal funding had been available, it would have reduced the need for external funding to get through a liquidity crunch. Moreover, a central overview of cash flows is important to curb fraud attempts and reduce the risk of losses.

In the early stages of the pandemic in 2020, Serrala asked finance professionals around the globe if they were satisfied with the tools and processes available to them for managing and forecasting cash efficiently, especially in a time of crisis. Sixty-two percent (62%) of respondents were not satisfied and instead said that manual processes were the key challenge to an efficient cash management and forecasting. Asked again in April 2021, only 23% of the respondents were still dissatisfied with their finance & treasury processes.

So, what steps have been taken to streamline processes and systems to ultimately achieve central cash visibility? What were the key hurdles and challenges CFOs and their teams had to address? And what are the winning strategies that have proven to be successful for companies and will serve as best practices for the future?

Hurdles to Overcome on the Road to Cash Excellence

The key challenges that have made central cash excellence difficult in the best of times were even more pronounced in times of the crisis. The most significant roadblocks that were experienced by companies globally are rooted in not being able to access cash-relevant data at the right time. We share these key challenges below:

- **Disjointed processes**: It is a common issue for many organizations that have grown over time to have inherited or developed a multitude of legacy systems. Consequently, multiple ERPs, local tools and other systems work independently from each other without a direct connection or integration. Such siloed and complex architectures can lead to a loss of data half-way through disjointed process flows. This certainly complicates the monitoring of processes and auditing of data across an organization.

- **No standardization**: A siloed system landscape often goes hand-in-hand with a lack of standardized and harmonized processes. Local entities use different tools for managing payments, which require specific processes that are not aligned throughout the organization. One of the main issues that can arise with this misalignment is that data availability can vary across the organization, as processes may be faster in one entity and slower in others or fundamentally disjointed. Therefore, cash management is constrained to working with incomplete data throughout the day. Moreover, the quality and information needed for cash flow forecasting longer-term is even further compromised.

- **High manual workloads**: Finance teams still rely heavily on manual processes, which lead to high workloads and slow processes. Fragmented and manual operations and procedures were the top concern for respondents who worked in accounts payable, payments, accounts receivable and cash management, as a survey amongst our global community earlier this year revealed. The aches and pains from manual work are exacerbated when transaction volumes grow. Finance teams struggle to keep up with capturing and reconciling transactional data and Backlogs of unprocessed and unreconciled data needed for cash forecasting build up over time. This results in cash views that are not up-to-date and incomplete. Data quality is also affected by manual processes, as the risk of keying errors is higher than with fully automated processes.

- **No easy access to bank data:** Managing multiple logins to multiple bank portals with different tokens is time-consuming and complex. There is no easy way of accessing the data needed in such a fragmented setting of different user interfaces. Not to mention, data extracted can be a mixed bag of formats that need to be harmonized, which results in more manual work. Difficulty accessing data from banking portals not only affects cash management workflows, it also affects other finance operations such as A/P and A/R that rely heavily on account statements, payment status updates and more.

By addressing these hurdles and challenges, companies stand to significantly improve their cash visibility – the basis for their liquidity-related decision-making. Let us have a look at some concrete solutions.

Key Steps for Solving the Cash Conundrum

Tools for enhancing cash visibility have always been popular, but even more so during the crisis. They enable finance teams to overcome cash management challenges that have become even more pronounced with teams working remotely. Therefore, building a central cash visibility hub that automatically pulls all statements, cash flows, balances and more into one view helps organizations achieve the next level of transparency for decision-making.

A hub is the central location that connects all treasury, local entities, accounting and other information providers in the cash forecasting process of a company. Fast interaction and constant data exchange between all sources through one location provides companies with the reporting and decision-making guidance they need.

To help steer companies safely through the stormy waters of the current crisis, key steps can be taken to address immediate needs. When taken properly, these investments also better prepare organizations for future challenges.

Integrating Processes into One Central Hub

Uniting multiple ERPs, local tools and different technologies under a joint umbrella seems like an unsurmountable task, but it does not have to be. It is important to break down this exercise into concrete steps that clearly target your ultimate goal – to track cash flow data throughout your financial process. First, it is important to understand that data is needed across the financial supply chain, including accounts payable, accounts receivable, payments and cash management. Secondly, finance teams should identify where the data comes from. While accounting data sets will likely come from on-premise ERP systems, other data sets, such as payment transactions and account statements, typically come from different sources. Adopting a central cloud solution can help bring accounting and transactional data together. Cloud solutions can be easily connected to existing landscapes and can help companies get a quick view on transactional cash availability. Integrating cloud solutions to the ERP system helps leverage the accounting data necessary for refined forecasting and better cash planning. Vendors providing solutions that ensure that on-premise ERP systems and cloud solutions are fully compatible and integrated help centralize all data in one hub. Once all data is centralized, finance teams can really take advantage of flexible reporting and dashboarding within the cloud. They can benefit from a real-time cash status and the possibility to drill down into details, delivering deeper insights for better decision-making.

Standardizing and Automating Finance Processes

One hundred percent (100%) cash visibility is a goal that is often missed, because underlying processes such as accounts receivable or accounts payable are highly manual. By standardizing and harmonizing these processes across an organization and automating them from end-to-end, companies stand to gain much more reliable data in a shorter timeframe. This standardization directly pays into enhancing cash management and forecasting. Investments into automation tools deliver fast returns, as several examples illustrate below. Let us dive into how automation can actually be applied from these concrete use cases.

<u>A/R Automation</u>

Automating accounts receivable processes – and in particular, cash application – is an excellent starting point as it pays off fast and reduces manual workload by up to 75%.
What makes the accounts receivable process challenging is the multitude of formats in which payment information is received. Electronic account statements and intraday statements are rather straight-forward to process, but other formats are more complicated to automate. Remittance advices, lockbox data and settlement files from payment service providers (PSP) provide payment information in different structures or in an unstructured way, which makes it difficult for standard applications to recognize and reconcile all the data automatically. Intelligent automation tools, however, can process even the most unstructured formats.

Typical cash application solutions facilitate A/R matching processes by allowing organizations to set criteria, rules and filters to automatically perform matching. A strong cash application solution should be manageable by the finance teams directly without IT intervention. Bringing this power and capability directly into the finance team means that they can improve and refine rules on their own over time as they learn. Machine learning and artificial intelligence further enhance such automation so that even if certain data is missing or incorrect, the tool can recognize patterns from past data and automatically identify senders, references and more to generate posting proposals.

Depending on the quality of the data and the format, automation rates of up to 99% are feasible for cash application. This means adopting a proper solution in place of manual processes can result in A/R data being complete and ready for cash management well before finance colleagues have finished their first coffee in the morning.

> *A logistics company summarized the key benefits of their AR automation solution as follows:*
>
> "Payment information and invoices are reconciled fast, feeding information directly to cash and liquidity management processes. The efficiency and information gain [from automation] is substantial. Our business users are in control of the process now and we have clear visibility of everything that has been posted with the complete audit trail connected. Consequently, any sales blocks are released much faster, allowing additional revenues to be generated."

A/P Automation

The handling of vendor invoices is just as manual as that of customer payment information. Many invoices are still paper-based or sent as PDF attachments by email. Capturing, processing, approving and posting them takes up significant time every day. The best way to accelerate the process and to push the data quickly to cash management is to automate accounts payable processes.

As many invoices are still paper-based or received as PDF/TIF attachments in emails, one quick win for handling A/P is to first digitized invoices with an intelligent scanning tool that captures the data on the invoice using Optical Character Recognition (OCR) technology. Alternately, this can be outsourced to vendors who provide this as a managed service. By asking vendors to send invoices electronically or upload them to an online portal, the processes can be further sped up. Validating invoices automatically ensures that invoice information is correct and complete. For example, mandatory legal data, invoice amounts and corresponding purchase order numbers would be checked by an A/P solution. Automation solutions can easily verify invoices against over 50 validation points to ensure they are correct. As duplicate invoices are often a challenge in the accounts payable process, such a validation process helps automatically detect whether an invoice was already posted in the ERP system and automatically rejects it.

An A/P automation solution also enables the auto-approval of invoices. Finance teams can set thresholds for different invoice types that determine if an invoice can be automatically approved. This can significantly decrease manual work and time lag for processing. Approved invoices can then be automatically posted within the ERP system if they meet the configured matching criteria. An automatic 3-way matching of purchase order, invoice and goods receipt ensures that the invoice can be reliably and quickly posted. This is the fastest and most reliable way to make A/P data available for cash management and forecasting.

A/P automation solutions can easily grow to meet processing challenges, such as when the number of invoices grows significantly. The solution simply scales with it and ensures that invoice information is immediately available for cash management processes.

Here is an example from an education, research and medical organization before and after A/P Automation:

"Before we automated our A/P invoice processing, there was no good way to capture the metrics of how many invoices we were receiving on a monthly basis. The team and our mail room literally had to count the number of invoices we received in one month to give us an idea of the volumes and a benchmark for an A/P automation project. We discovered that we were receiving about 30,000 invoices per month, and over six percent (6%) of invoices were duplicates. The team, however, only had the capacity to process around 23,000 invoices per month, so every month there was a deficit of 7,000 invoices. Over time, the pile of untouched invoices increased. The only way out of this was to automate the process. We did this by getting incoming invoices scanned and convincing our suppliers to change to electronic invoices. All invoices were then automatically fed into an invoice processing solution that would automatically validate the invoice data, process it, and push the invoices through our approval process so they could be automatically posted in our ERP. As a result, 80-90% of the electronic invoices, and 50% of all invoices, are now automatically processed. We have halved the number of duplicate invoices and halved the processing cost per invoice. When our team now touches invoices it is mainly because there are exceptions. There is no more backlog in invoice processing, and we are able to pass more complete and reliable data onto our cash management colleagues. Not to forget, we finally have metrics on invoices available in real-time."

Payments

Even today, manual processing of outbound payments is still the predominant method. Whether payments are made via paper check, ACH, wire transfer or other electronic banking tools, what they all have in common is often a high number of manual, disjointed tasks involved in processing them. When finance teams have to juggle a variety of banking tools and logins and have to navigate a mosaic of processes, formats and authorization procedures, central control over group-wide payments seems out of reach.

Implementing a centralized payments tool with direct connectivity to the bank will take that pain away. It will require only one log-in, enable standardized authorization procedures, and provide a group-wide overview of payment transactions. To simplify the bank communication and payment procedure even further, companies can choose a payment provider that provides managed services for establishing bank connectivity and formatting. Instead of having to set up and maintain their own IT infrastructures for communicating with banks, the service takes care of that and gives finance teams the time back to focus on core tasks. Whenever new payment methods and communication channels need to be added, it is easy. As a scalable service, it enables companies to expand into new markets at their own pace. Through these services, payments can be sent out via EBICS, Swift, API or other channels. Service providers have the expertise to help figure out which connectivity options are fastest to establish, more cost efficient, and appropriate for the market. At the same time, payment status information and account statements are received and routed back into the ERP systems. This is important information to control payments and to know if payments have gone out successfully, on what day, and how that information is reflected in the cash management overview. In an ideal case, payment processes are integrated with the accounts payable processes within the ERP system. Managing the process from end-to-end provides deeper cash insights.

This is how a major airline keeps an overview of 1,500 bank accounts globally:

"As a major airline we have around 1,500 bank accounts, nearly 50% of which are held with our primary cash management banks. Before embarking on our payment factory project, we used the banks' electronic banking systems for payment approval and execution, both at a headquarters level and across the group. Given the nature of our business, we also need to work with local banks, so we have around 800 accounts, which, until this project, have been held with more than 100 banks across 107 countries. We used numerous local electronic banking solutions to communicate with these banks. Given the different levels of functionality, diversity of formats and varying opportunities for process automation, the use of multiple systems resulted in fragmented processes for retrieving bank statements, approving and executing payments, user administration, etc. We then went for a highly flexible solution that provided a rule-based mechanism to map different incoming file formats into a meta format, from which the outgoing XML ISO 20022 (CGI) format is created. This was important as we were using iDOC, XML and a variety of local formats. We aimed to build a bank-independent hub that would connect our in-house systems on one side and our banks on the other, for the two-way flow of transactions and information. By doing so, we aimed to automate bank statement retrieval to allow central visibility over liquidity, while enabling group companies to access information on the relevant accounts. We also sought to centralize and harmonize processes for outgoing vendor payments, and channel these through a single hub to replace existing electronic banking systems."

Adopting New Business Norms and Innovative Trends

The past year has brought on many changes to how companies fundamentally operate. While traditional commercial models were challenged through the pandemic, companies explored new business opportunities and expanded from their B2B market into e-commerce and omnichannel sales, selling their product via online platforms or their own online shops. As online payment methods – such as credit cards, PayPal, Apple Pay, Google Pay and services from other payment service providers – are more widely used in e-commerce, companies had to adapt their solutions to integrate these into existing connections. As business volumes shifted and grew in a short period of time from traditional venues to e-commerce, quick solutions were needed. Service providers proved to be the flexible, scalable solution that allowed companies to offer their consumers a broad range of payment options and integrate payments into their central cash visibility hub.

Payment trends like digital requests to pay (RTP) and instant payments fit perfectly with the new business norm and have accelerated cash-in and cash-out processes even further. Consumers are used to fast payment processes and expect to be able to pay in an instant, from a mobile phone for example, and receive their goods quickly.

Implementing a request-to-pay solution enables companies to go completely touchless on their receivables and to benefit from 100% automated reconciliation, which is even higher than the 99% automation that is possible for other payment information types. All relevant invoice information that is sent to the customer is pulled automatically from the ERP system, and the payment request is sent directly via text message, email, chat or through a portal to the consumers. The consumers can pay their due amount by simply clicking on the request in the message and authorizing it with their regular method, for example, touch ID, face ID or password. No more entering bank and payment details into online banking tools and, therefore, no more typing errors. The payment is then automatically reconciled and ready for cash management.

Instant or fast payment schemes are evolving globally. With these trends, real-time payments are becoming more than just a possibility, they are a reality. Payments reach the recipient within seconds and are immediately confirmed. Therefore, the payment data is instantly available for cash management.

These are great examples of the high demand payments put on the world of business and how the world of payments is evolving. Companies have to stay agile and adopt new developments quickly. Solutions are

WINNING STRATEGIES FOR THE FUTURE OF FINANCE (CONTINUED)

increasingly becoming more automated and flexible, which enables companies to achieve a better, central overview of group-wide cash.

Conclusion

The pandemic has put cash management and forecasting back at the center of attention for many finance teams. For many, the challenges of not having a central overview over a company's cash resources have become evident. Companies should be enthusiastic about looking for end-to-end solutions and partnerships that enable quick wins to make cash information readily available, bring in automation and security, as well as grow with them into the future.

About the author:

Nancy Zhang, CFA, Director Solution Success, Serrala - As the Director of Solution Success for Serrala's Payments portfolio, Nancy is responsible for overseeing the strategy and the end-to-end delivery success of our Payments solutions. She began her career at Serrala as a Senior Solution Architect specializing in cash visibility, treasury, and payments. In her prior career, she has had the opportunity to work through the product delivery chain in treasury management solutions - taking on leadership roles in implementation consulting, project management, product management, and agile software development. She specializes in the corporate finance space, having led implementations for corporations in many industries. Nancy obtained her degree in Finance from the University of British Columbia and is a CFA® charter holder.

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Credit Research Foundation

Upcoming ICE Breaker Webinar

Cyber Security & Online Silent Auction

November 17, 2021 3:00 PM –4:30 PM

We will be meeting virtually again via Zoom on the afternoon of November 17th. FBI Agent Byron Franz will give you a fascinating presentation on Cyber Security. We will also be kicking off our 2nd Annual Silent Auction. You don't want to miss this!

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UPCOMING INDUSTRY CREDIT GROUP MEETINGS

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Fine Paper/Graphic Arts Industry Credit Group
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DID YOU HEAR??
DID YOU KNOW??
THE ASSOCIATION CAN DO WHAT??

The Association Can Help You Collect Bad Debts!

It is well known that collectability drops off dramatically as an account ages out. At six months past due, the possibility of collection is low; at nine months the possibility of collection is remote; and at a year past due, collection is quite unlikely. The obvious answer for the creditor wondering when to place an account for collection is that sooner is better than later. Unlike good wine, delinquencies do not improve with age.

Whether your company is large, medium or small, our Recovery Service Department of skilled, experienced, and professional recovery specialists can help with your delinquent accounts.

An account should be placed for collection when the credit department feels it is no longer making progress in its collection efforts. Contact US TODAY & see what we can do for you!

YOU CAN TRUST THE ASSOCIATION TO ASSIST IN COLLECTION RECOVERY FROM YOUR DEBTORS ANYWHERE IN THE WORLD.