Perspective by CRF

2nd Quarter, 2023

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It's Time for Accounts Receivable to Embrace Automation

Written by: Elaine Nowak, Auditoria.AI

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By: Christopher Rios and Rhonda Buras, Dun & Bradstreet

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Credit Research Foundation

It’s Time for Accounts Receivable to Embrace Automation

By: Elaine Nowak, Senior Director Product Marketing, Auditoria.AI

Have you stopped to think about how much time is spent on manual tasks?

The answer may surprise you.

For mid-size companies, most A/R teams spend more than 2,000 hours annually on routine, labor-intensive accounts receivables tasks. For larger enterprises with teams consisting of approximately 25 people, this number jumps to 16,000 hours of routine, manual work.

Responding to requests for documentation, sending invoice copies and reminders, researching account status, and following up on outstanding balances - all of these routine, repetitive tasks for the A/R department not only drag down morale but also derail focus from more meaningful activities.

It’s no wonder 45% of finance and accounting practitioners feel repetitive work is a massive drain on the organization.

Needless to say, this makes the A/R area of finance ripe for change, and action must be taken to help streamline back-office tasks.

Why Automation?

The truth is that Accounts Receivable is overdue for an upgrade.

It’s time for a more streamlined and efficient process to enable teams to handle other high-value duties such as building meaningful relationships, maintaining the billing system, creating reports, and investigating irregularities.

Advanced automation has the opportunity to streamline repetitive, manual processes, from account classification to correspondence and even metrics tracking. Next-gen software could augment workflows and enhance engagement to save time, reduce costs, and prevent errors.

1. Streamlined Communication

The implementation of automation significantly enhances the customer experience by enabling the autonomous delivery of targeted correspondence with the appropriate tone and content, strengthening customer relationships, and facilitating timely payments.

Additionally, bi-directional correspondence is designed to work in tandem with payer classification, ensuring that all payers receive messages tailored to their specific circumstances. This integrated process saves time and effort for A/R teams, enabling them to focus on more complex cases and enhancing overall productivity.

2. Account Classification

Automated account classification provides specialists with the ability to segment their outreach based on intelligent insights derived from various payer types, including fast payers, slow payers, at-risk accounts, strategic accounts, government agencies, and resellers. This automated process ensures that collections workflows are optimized, and up-to-date information is available to expedite processes.

With automation, teams will have access to valuable insights into customer payment patterns. This includes knowledge of which customers pay early, late, or on time, enabling teams to prioritize outreach accordingly.

Predictive forecasting capabilities provide valuable information about which customers are likely to make late or no payments, enabling teams to implement the appropriate incentives and strategies to mitigate the impact of delinquent accounts. It also flags accounts that display unusual behaviors, so proactive and prescriptive action is taken to mitigate risks. Ultimately, the automation of account classification and receivables management processes will enhance the effectiveness of the A/R team, streamline workflows, and improve cash flow.

3. Automated Metrics

By understanding the payment status, an accounts receivable team has the opportunity to deliver the appropriate correspondence and prepare for payment arrivals accurately. Automation offers the added benefit of providing real-time updates without the need for constant communication with customers.

Further, automation seamlessly tracks metrics, such as Days Sales Outstanding (DSO), providing valuable tools for teams to gain insight into performance trends. By leveraging these automated tracking mechanisms, teams monitor payment progress, identify potential delays, and streamline the collections process, resulting in improved cash flow.

Embracing A/R Automation

Implementing automation has a significant impact on enterprises, resulting in an immediate 75% reduction in workload by eliminating tedious and error-prone manual tasks. By freeing up teams to focus on more meaningful and rewarding work, enterprises also improve employee retention.

In addition to workload reduction, automation increases productivity and efficiency within finance and accounting departments by up to 60%. Scalable and flexible software solutions reduce the need to hire additional professionals to meet growing business demands or seasonal fluctuations. Scalable and flexible, automation offers a more cost-effective approach to handling workloads for the A/R function.

Advanced technology, such as AI and automation, also improves capital and cash performance by reducing Days Sales Outstanding (DSO) by up to 15%. By providing more robust reporting and analytics, businesses gain a clearer view of their financial status, leading to a 10-15% reduction in past-due A/R and a 35% reduction in bad-debt write-offs.

A/R automation improves auditing by reducing human errors and automatically capturing notes, actions, and outcomes. Adopting A/R automation also leads to increased customer satisfaction, as automated technology responds within minutes to clients 24/7, 365 days per year. By leveraging these benefits, enterprises improve their financial performance, streamline processes, and enhance customer satisfaction.

The Future of Accounts Receivable

Some finance professionals may still hesitate to embark on implementing automation, taking the wait-and-see approach, but waiting even just one more month before embracing automation could be the final nail in their proverbial coffin.

There's no way around it – now is the time to incorporate advanced technology into the finance back office. Teams are at risk of reduced productivity, inaccurate data, and poor metrics – all affecting the bottom line. In today's quick to change business environment, all eyes must be on that bottom line, and finance is

a big part of that equation.

The move to remote work and decentralized workspaces demonstrated the power of digital transformation, as businesses that embraced digitalization saw the significant organizational impact and made progress towards enacting real change on a global scale. By embracing automation, businesses recover thousands of hours of lost time that was previously spent on data entry and follow-up tasks. This newfound time is redirected to career-enhancing work, and an increased percentage of goals achieved for the department. More in-depth analysis allows for greater strategic decision-making that becomes the norm for A/R, driving deeper value and impact for the organization as a whole.

While the idea of adopting new technologies may seem daunting, quick wins are an important start to jump in and reap the benefits. By embracing innovative technologies, your business stays ahead of the curve and continues to grow in a rapidly changing world.

What are you waiting for? Start on your automation journey today and your CFO and future self will thank you.

About the Author

In her role as Senior Director Product Marketing, Elaine is dedicated to developing and articulating compelling value propositions and targeted content, working with thought leaders, industry and subject-matter experts and analysts to communicate the benefits and value of Auditoria.ai to advocate for customer-centric finance transformation. With more than two decades of marketing experience, Elaine delivers messaging and positioning, sales enablement, and thought leadership, collaborating cross-functionally to ensure ongoing market relevance.

Is Work From Home Permanent?

A CRF Member Survey Infographic

There is no doubt that COVID-19 has changed the office landscape. What was initially a two-week hiatus has now completed its third year, and we are still settling into what may be the new norm for in-office work activity. The Credit Research Foundation's recent member assistant program (MAP) survey on this subject offers insight into how organizations have adopted Work From Home (WFH) schedules and how they have constructed their specific program design.

To begin with, over 93% (Chart 1) of respondents have established a footprint that includes a work from home (WFH) strategy for their organizational design, and 96% of those (Chart 2) include **all** staff members in the construct of their program/policy.

Chart 1

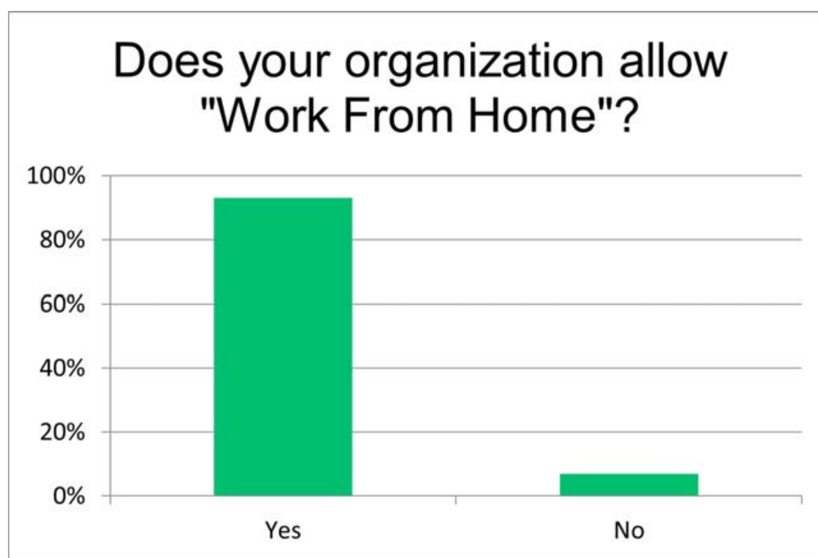
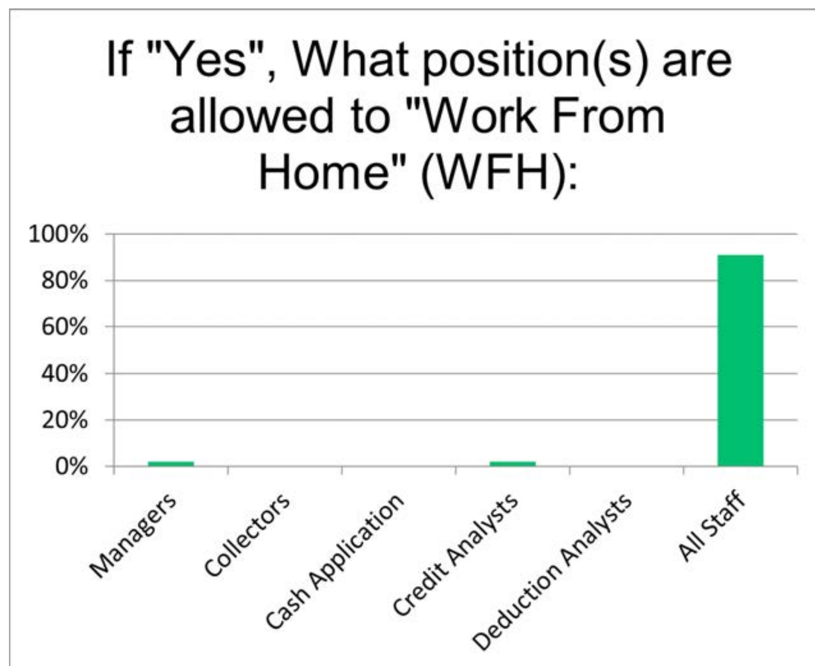


Chart 2



What may be one of the more relevant facts is how each organization defines WFH, since over 80% of survey respondents indicated they have established a "hybrid" model for their organization (Chart 3). Adding specificity to the concept of a hybrid model, the majority of respondents indicated the establishment of a three day in-office model, thus employees work from home the remaining two days. The below reference points are a consolidation of respondents' "hybrid" WFH programs:

- Four days per week with Friday as WFH for all employees
- Three days per week in-office (Monday, Tuesday, Wednesday)
- Two days per week where one day everyone is in the office at the same time and the second day is chosen by the employee
- Everyone in the office on Wednesday
- Some employees 100% remote and others follow a hybrid schedule

Chart 3

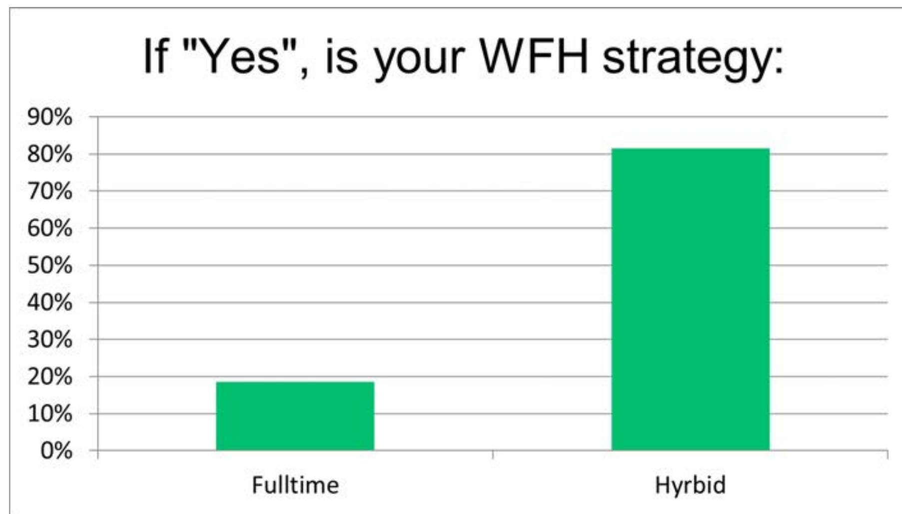
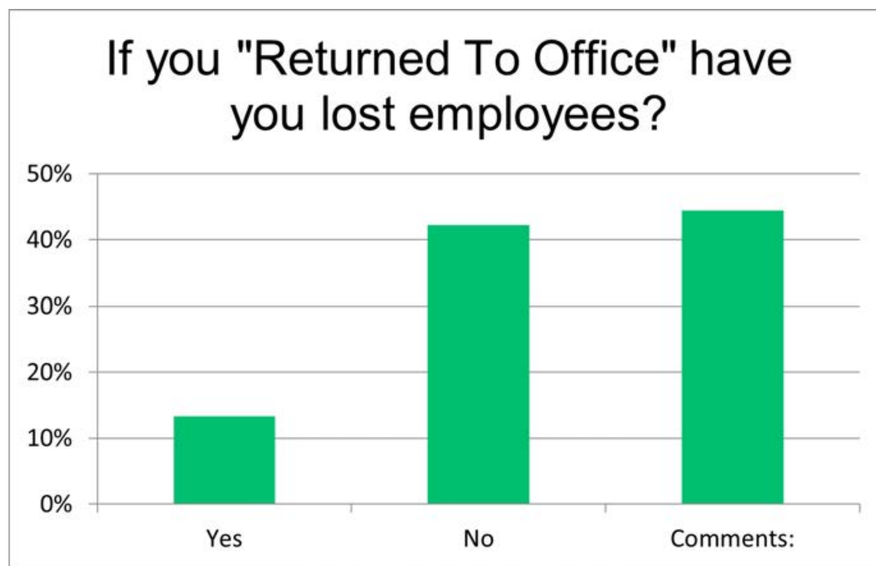


Chart 4

Given the independent organizational design reported by respondents, they then elaborated on the governance and measurement tools that allow this change to continue. Specifically, and antidotally, we continue to hear that overall operational metrics are as good or better than historic results. To continue this positive trend, respondents are using all of the above metrics (Chart 4) to monitor individual and overall performance. In addition, here are several unique KPIs our peer group is using:

- Must be available at all times to be on camera
- Must dress as if you were in the office
- Call notes entered
- Number of outbound calls
- Cash received

Chart 5



Lastly, it is interesting to note that 13% of respondents have lost employees who were requested to return to the office (Chart 5). This metric seems slightly skewed given the comments made by a majority of respondents who indicated they have lost some employees (a small percentage) but with no significant negative impact.

Now, 3 years after its inception, the WFH philosophy continues to be widely accepted and appears to be on solid ground. What is unique is that many firms have established a permanent "hybrid" approach that requires both in-office and out-of-office employee participation.

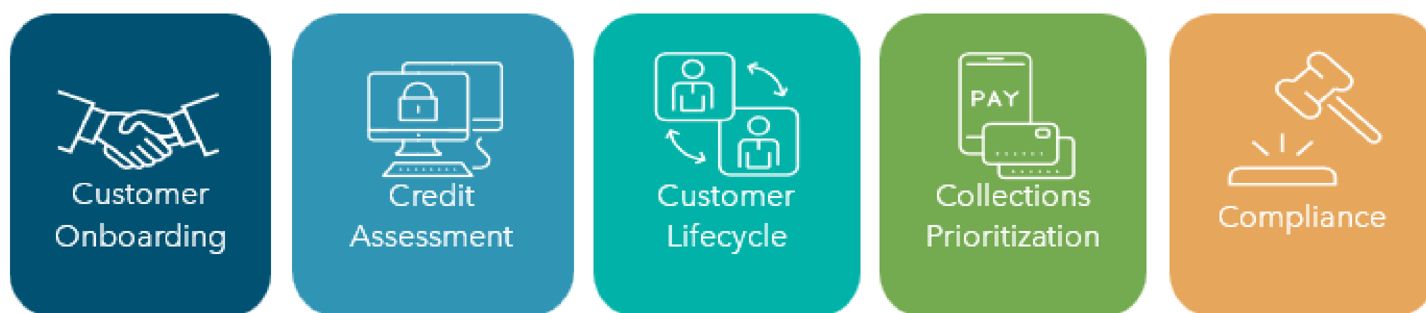
CRF will continue to monitor this issue and share results of the WFH movement.

The New Age of the 5 Cs

By: Christopher Rios, Vice President Credit & Receivables Intelligence, and Rhonda Buras, Senior Specialist, Shared Services, Dun and Bradstreet

Have you ever been told to “stick to the basics?” It’s a simple, yet powerful statement. Those of us who have made a career in the business credit profession would likely agree on the simplicity of the original 5 Cs of credit, considering they have guided our principles and policies ever since Abraham Lincoln was a credit reporter for Dun & Bradstreet. After all, they’re a true testament to “sticking to the basics.”

Why change what has worked? Well, I believe change is important and this resembles more of an evolution of the basic principles of business credit management. Having the opportunity to serve thousands of customers and collect valuable insights over the years, I have seen an evolution of the 5 Cs of credit while staying true to its fundamental principles. I want to explore, explain, and educate on the value of this evolution to the “New 5 Cs of Credit.”



Customer Onboarding:

As we begin to see the convergence of KYC (Know Your Customer) and compliance processes now penetrating credit management, there is a different emphasis on credit assessments. Some of the more proactive approaches to onboarding begins with pre-screening prospective customers. Some businesses may use a simple stoplight evaluation of potential risk or opportunity posed by those prospects, and now there is growing emphasis on fraud, ESG, OFAC, and traditional financial risk attributes.

As I previously stated, the fundamentals of the 5 Cs are still in play. We’re just opening up the aperture to include more insights that can help drive efficiency. How? Knowing a prospect may have a greater propensity for perpetrating fraud may result in avoiding such opportunities, or at least working towards adjudicating those findings before you’ve exposed your organization. An OFAC flag could have both legal and financial implications to your business - or at a minimum have a negative brand or reputational impact which will almost always result in a negative financial impact. Financial risk can be considerably more subjective or arbitrary, but being alerted to fraud and OFAC flags may result in never getting to financial due diligence, which results in cost avoidance (fines, penalties, wasted sales time) and overall risk mitigation.

Credit Assessment:

While the credit review process has not gone through significant change with financials and other standard ratio analysis that comprise a majority of analyses, the process itself has seen significant updates. We have seen predictive analytics and ratios used as inputs in models to help automate the review process. What has become more prevalent is the utilization of online credit applications and the ability to leverage integration to proactively assess opportunities within a company’s CRM (Customer Relationship Management) solution.

As I stated earlier, the fundamental principles of the credit discipline have not changed. What we have

seen and continue to support, particularly as we navigate COVID, supply chain disruption, and socio- and geo-political turmoil, is credit now having a seat at the strategic decision-making table within organizations. Risk management and mitigation is at the forefront of strategic discussions, but it is also coupled with growth initiatives. The more efficiency gained in the credit process, the greater opportunity to recapture that time to focus on dispute resolution, account reconciliation, and researching growth opportunities.

Customer Lifecycle:

This section of the new 5 Cs may be new to some and doesn't receive the attention it should when we think about portfolio management. If you are working in a "for profit" organization, sales and revenue propel the business and in many situations that risk is worth the reward. For credit professionals it's almost never the case that we have full autonomy to say no to a new sales opportunity. As such, we defer to the business and hope their decision doesn't come back to bite them (and some of us may hope for that bite to occur to teach a lesson). Even though we may have guided against such a decision, that doesn't preclude us from our responsibility to monitor, maintain, and manage those customers in our portfolio, particularly if we know they represent a certain amount of risk to the business.

Therefore, customer lifecycle may begin with a credit decision, but quickly results in the creation of a customer record. In order to manage and mitigate risk, you must be able to leverage that customer record to properly track through its lifecycle.

So, what does that mean? Customer attributes are name, address, zip code, SIC code, but there are also predictive analytics that should be appended to that customer record. It is the ability to assign attributes to the customer record that allows businesses to effectively track risk within the portfolio - and more importantly - manage the behavioral patterns and profile changes within the portfolio. It also makes it easier to monitor and obtain alerts. One of the most important attributes is a unique identifier such as the Dun & Bradstreet D-U-N-S® Number. This allows businesses to anchor their customers and overall business interactions across enterprise, middleware, and any other disparate systems that are commonly found at most organizations.

Collections Prioritization:

Now the fun stuff - collections! There may not be a more thankless job in Finance Operations, but it can also be one of the most fun, engaging, and rewarding functions – however not in its traditional form of chasing dollars. Calls, dunning notices, and legal action are all still part of the day-to-day and that hasn't changed for decades. What we are seeing, however, is that more companies are leveraging the insights from what we described above in Customer Lifecycle to assign an appropriate risk-based collections management strategy. The idea would be to automate "touches" to low/low-moderate customers while focusing resources on those identified high-risk accounts. High risk, by our definition, are those customers who have the greatest likelihood of going delinquent or out of business. This is what we refer to as anticipatory collections. While putting resources against due and one-day past due accounts and beyond is a necessity. The more we leverage predictive analytics to better anticipate risk means we can deploy our resources more efficiently. Imagine having collection analysts recapturing time to focus on dispute and/or deduction resolution, partnering with their peers in billing/pricing to address upfront issues, or focusing on supporting cash application efforts? These are the areas that can contribute more to DSO deterioration than actual slow or non-payment.

Compliance:

In this context, compliance relates to governance, adherence, and discipline to the processes organizations establish for the preceding Cs. This is key to ongoing success. Policy and process should be established based on data and cannot be static, but dynamic. Employing the concept of "living" policies and processes means that as you learn more month by month, quarter by quarter, year over year, you will leverage

those learnings in updating your policies and processes. Business will continue changing and evolving - as should your business credit practices. The compliance discipline will also make internal/external audits simpler for your teams because you will have consistency across your credit organization, which will also help other facets of your finance operation's organization.

Conclusion:

At the end of the day, business credit and the overall credit discipline is so much more than credit applications and financial analysis that sits in a cost center. Credit is a key contributor to thought leadership, strategy, and overall growth.

Please join us at the CRF August Forum & EXPO where we'll be presenting more information on a strategic transition to "The New Age of the 5 Cs." Our Speaking Session will be held on Tuesday, August 8, 2023 from 9:30 a.m. – 10:15 a.m. **CLICK HERE** to learn more and register.

About the Authors

Christopher brings over 20 years of financial operations experience to the Finance Analytics team at Dun & Bradstreet. He was the VP of Finance Operations most recently for Securitas, Warner Music Group, and Dun & Bradstreet. He is now bringing his practitioner expertise to the software and analytics world at Dun & Bradstreet.

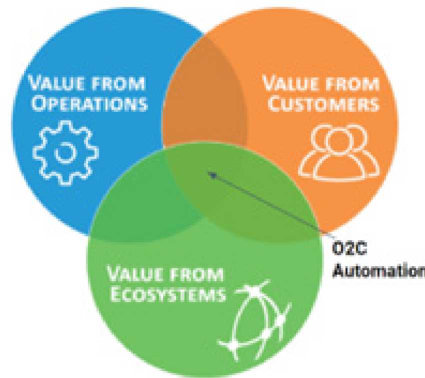
Rhonda Buras is the AVP Finance Solutions with D&B. She has over 18 years of experience in the credit risk arena holding previous positions as risk management specialist and General Manager, Credit. She brings her experiences across an array of learnings from the discipline and helps clients develop and implement solutions to proactively identify Accounts Receivable portfolio risk.

Can We Extract More Value from the O2C Cycle?

By: John Metzger, Chairman, Smyyth

The order-to-cash (O2C) cycle is a complex process involving various cross-functional activities. Despite advancements in ERP software and emerging technologies like robotic process automation (RPA) and AI, there is still room for improvement in B2B processes.

Companies can strategically realign their order-to-cash processes and leverage new technologies to optimize their performance and improve the bottom line. Optimization involves integrating data from business customers, automating activities, improving workflow, and analyzing deductions. By treating O2C as a unified challenge and breaking down departmental silos, companies can improve cash flow, deduction recoveries, and customer satisfaction.



Integrating the invoice-to-payment process is a critical aspect of O2C optimization. It involves linking stages from invoice generation and submission to validation, dispute resolution, payment processing, and reconciliation. While there may be industry-wide solutions like blockchain in the long term, current solutions involve implementing robotic (RPA) processes, leveraging bolt-on software applications, and optimizing ERP systems. Some areas in which these current solutions can be deployed are credit, accounts receivable management, collections, and deductions.

Credit management is a crucial aspect of the O2C cycle. B2B credit scoring and credit line monitoring help companies assess the creditworthiness of their business customers and manage credit risk. Effective credit management reduces the risk of defaults and improves slow payments. Automated credit application software has gone a long way to accelerate (and improve) new customer onboarding processes, often cutting order approvals from several days to 24 hours. The result leaves credit managers with more time to manage high-risk customers.

Accounts receivable (AR) management includes cash application, where incoming customer payments are matched and applied to open invoices. Traditional cash application processes can be time-consuming and prone to errors. However, software solutions can automate the cash application process using optical character recognition (OCR) technology, employing machine learning algorithms, and providing real-time adjustments based on pay terms and special conditions like tolerance write offs or early pays. By integrating with payment gateways and accounting systems, data analytics and reporting capabilities are also optimized. These enhancements streamline cash application processes, reduce errors, and improve operational efficiency to ensure cash closes quickly, disputes are handled sooner, and collectors have accurate views on true open invoices.

Collections management is another area where software can improve the efficiency of the O2C cycle. Software can automate collection tasks, handle dispute resolution, and provide reporting and productivi-

ty analytics. By integrating with accounting, third party bureau data and CRM systems, software solutions also utilize predictive analytics to identify high-priority activities and manage them through workflows, better facilitating multi-channel communication, collaboration and documentation automation. By leveraging software, businesses can enhance productivity, improve customer communication, and make informed decisions to accelerate the payment cycle and improve cash flow.

Deductions, dispute or claims and chargeback management is particularly unique when utilizing new technologies to improve your O2C processes. Deduction automation software provides centralized access to deduction-related documents and real-time visibility into the deduction management process. By integrating with various ERP systems and employing intelligent matching and validation algorithms, seamless data exchange and synchronization attained between different departments and systems involved in the deductions or disputes areas process. It facilitates collaboration and communication by incorporating alert and notification systems across all departments. Additionally, the software maintains documentation and audit trails to assist with compliance and dispute resolution and offers root cause analytics and reporting for better benchmarking. These software enhancements streamline the deduction management process, improve efficiency, and provide better visibility into deduction trends and outcomes.

While O2C optimization may seem daunting, even small changes can deliver significant ROI. For example, for a $10 billion consumer goods company:

- a 3-day reduction in Day Sales Outstanding (DSO) will produce $82 million in additional cash, with autonomous collections, reducing administrative costs by a large percentage.
- a 5% reduction in customer deductions would represent millions of dollars in additional profits.
- effective management of claims validation and trade promotion accruals, which could be as high as 15% of revenues, will ensure that trade funds are being accurately accounted for - contrast to providing money freely without performance criteria.
- automation of cash application speeds closing the books, supercharge the deduction validation and resolution process, while eliminating 50% of the labor.

Summary

In conclusion, optimizing the order-to-cash cycle is an ongoing opportunity for businesses to improve their performance and bottom line. By integrating processes, leveraging automation and advanced technologies, and implementing software solutions for invoice-to-payment, companies can enhance efficiency, reduce errors and improve overall financial performance. Adopting software solutions for credit, accounts receivable, collections and customer deductions management offer ideal areas to start the process.

About the Author

John Metzger is Chairman of Smyyth & Carixa, which provides advanced Carixa™ accounts receivable automation and expert services for accounts receivable, including deduction management, to help clients achieve extraordinary productivity, cash flow, and profits. Previously John was CEO of Creditek, an AR and Deduction Management BPO industry leader, with a team of 1,000 specialists in consumer technology, pharma, and CPG. Earlier experience includes managing a turn-around consultancy, and prior positions including EVP of Global Operations, Director of Distribution, and Director of Credit.

How Technology Simplifies the Complexity of Dealing with International Suppliers

By: Matthew Debbage, CEO of the Americas and Asia, Creditsafe

According to our 'Murky Waters of Overseas Manufacturing' study, China holds the most export prowess with almost half (43%) of North American companies offshoring production of their goods in the country. This makes sense given China's low labor costs, large labor pool, strong business ecosystem, low taxes and duties, lack of regulatory compliance and competitive currency.

Meanwhile, exports from India have seen tremendous growth over the last two years, with a compound annual growth rate of 15%. India has reached $418 billion of manufacturing exports in fiscal year 2022. Meanwhile, exports of non-petroleum goods from Mexico to the United States grew almost 27% in February 2022 compared with the previous year.

Whether it's working with suppliers in China, India, Vietnam, Taiwan, Mexico or elsewhere, working with international suppliers is part and parcel of most business operations today. Technology alleviates the fears and risks of doing business with international suppliers. Most importantly, it exposes a variety of legal, financial and compliance risks that could slow down production, reduce customer loyalty, lower sales and cause irreparable damage to their reputation.

Verifying suppliers have the financial stability to complete production orders in full and on time

How confident are you that the international suppliers you work with have their finances in good order *and* have enough income to sustain operations and pay for materials needed to complete your orders? What data do you have to back up that confidence? If you're just assuming they do because another customer gave them a glowing reference, that's not good enough and you could still end up with uncompleted orders and lost deposits.

Without a credit risk intelligence platform, you wouldn't be able to run credit checks on international suppliers to make sure they have enough income and cash flow to pay their employees, pay for materials and complete production orders on time. Think about it this way . . . if one or more of a supplier's factories shut down for any reason (i.e. financial trouble, political unrest, worker disputes, pandemics), then you'll have to figure out how to get those orders completed from other suppliers in time.

The question then becomes – what data in a supplier's credit report should you pay attention to? There's a lot of information in a business credit report. And many people often mistake business credit reports as being the same as consumer credit reports. They're not.

While credit score is often the most important data point in consumer credit reports, it's not the single most important one in business credit reports. There are several data points that should be reviewed together – to tell the most accurate story about a supplier's financial health and cash flow. Some of the most important data points you should look at when vetting international suppliers include:

- **Average DBT:** This figure shows how many days past the agreed payment terms your suppliers pay their invoices. If a supplier has a high DBT score (15+ days), this should give you cause for concern because it indicates that the supplier has a cash flow problem, which means they may not have enough cash in their accounts to pay for materials or to pay their employee wages – both of which are critical if you want to get your orders delivered in full and on time.
- **Monthly DBT variation:** This analysis shows how a supplier's DBT fluctuates each month. So, if a supplier had a relatively stable DBT (at 5 days) for some time and then it jumps up drastically to 15 and stays there for some time, that indicates they're in financial trouble. Don't ignore this.

- **Past due payments:** This indicates how much debt your suppliers have. For example, if 85% of a supplier's payments are past due, this is an instant red flag that they've fallen behind on their financial commitments. So, if you're a newer customer, how likely is it that you'll get your invoices paid when others aren't? Not very likely.
- **Total amount owed:** This metric should be taken into consideration alongside the percentage of past due payments. If a supplier has a high percentage of past due payments that equates to a massive amount of money owed (i.e. $2 million), then you know this supplier won't be very reliable and may not be the best fit for your needs.
- **Legal filings:** This covers lawsuits, court judgements, tax liens and UCC filings. In our State of Credit Risk: 2022 report, we found that legal filings cost American businesses over $54 billion in 2022. So, if the lender sees dozens of legal filings on your report, this indicates cash flow issues may be on the horizon and the supplier's finances will have to go towards paying for legal fees, settlements and fines.

Supply chain fraud is a real problem – technology can minimize your risk

According to a report from PwC, 46% of companies reported experiencing fraud, corruption and economic crime in 2022. And as our study found, this is an even bigger concern when it comes to working with international suppliers. In fact, 4 in 10 companies are worried about being scammed by someone imitating a director of a legitimate company or sending money to a fake bank account. These are legitimate fears – likely triggered by past experiences with international suppliers. Or is it possible that manufacturers have been burned by fraud in the past and don't feel confident about the systems and processes in place to detect and prevent fraud?

Fraud isn't something new in global supply chains. You see it all the time in TV shows and films with goods 'falling off the back of a truck.' And there's also lookalike company/director scams that happen all the time. Scammers are often smart and do their research to pick a name very close to actual suppliers who are popular and in demand with manufacturers. And then you have bribery and kickbacks, which tend to be carried out by more senior-level executives in the supply chain. For instance, the owner or managing director of a factory in China could attempt to bribe a North American manufacturer to choose them over another supplier.

It's about understanding what types of fraud can threaten global supply chains and how businesses can prevent them. Here's a few things I'd recommend.

- **Be vigilant and don't rush into decisions:** There will certainly be times when you're up against the clock and need to find a supplier quickly. But you shouldn't let that cloud your judgment and stop you from properly vetting any supplier you're considering doing business with.
- **Verify the identity and legitimacy of suppliers:** Scams are opportunistic in nature. Fraudsters know this and capitalize on it. Don't ever take someone's word that they are who they say they are. It's quite common and easy for fraudsters to pretend to be a well-known supplier (or director in the company). Check that the company is legitimate and make sure that the person you're speaking to is, in fact, a director of the company.
- **Conduct regular and 'surprise' audits of your supply chain partners and processes:** Make sure you understand where the risks of fraud lie. For instance, if a supplier doesn't have theft prevention and detection policies and systems in place, your goods are more likely to 'fall off the back of a truck' into the wrong hands. And don't always schedule your audit appointments – surprise your partners so you can see how things truly operate on a day-to-day basis.
- **Train your employees to be aware of potential scams:** Scammers are often sophisticated and will target people who they believe to be vulnerable or likely to 'fall for it.' Make sure all of your em-

ployees in the supply chain and finance teams know what scenarios or red flags to look out for. Run mock sessions so they can get a real sense of what kinds of scams to expect. The more they know and expect, the more likely they are to identify and prevent fraud quickly. You may even want to offer incentives or rewards to encourage employees to be vigilant against supply chain fraud.

Making supplier due diligence both a business and ethical priority

The implications of working with a sanctioned company are far reaching. Just look at what happened to British American Tobacco this week. The company has been ordered to pay $635 million plus interest to U.S. authorities after a subsidiary admitted selling cigarettes to North Korea in violation of sanctions.

Not prioritizing due diligence, both within your own business and with the international suppliers manufacturers work with, could have serious consequences. Not only could manufacturers lose the loyalty and repeat sales of customers, but their brand reputation could take a huge hit with negative publicity and plummeting stock prices.

To add fuel to the fire, they could also find their business on the receiving end of lawsuits, compliance violations and regulatory fines. In the U.S., for example, the Uyghur Forced Labor Prevention Act was passed unanimously by the U.S. Senate in December 2021. The act bans imports from China's Xinjiang region unless companies can prove their goods were not produced using forced labor or child labor. More recently, Canada passed Bill S-211, an Act to enact the Fighting Against Forced Labor and Child Labor in Supply Chains Act and to amend the Customs Tariff (the Act). The bill will go into effect on January 1, 2024.

Meanwhile, U.S. senators introduced the Slave-Free Business Certification bill in 2022. The bill requires certain large companies to carry out audits on their supply chains to ensure they are free of slave labor. If the bill passes, eligible companies could be fined up to $1 million if forced labor is identified in their supply chains. Canada has a similar type of legislation awaiting adoption.

If you've been working with suppliers that employ forced or child labor, then you're opening your business up to compliance violations and regulatory fines. On top of that, you could lose loyal customers, which would deplete your cash flow significantly.

We live in an age of cancel culture. Consumers don't just expect brands to behave ethically and responsibly – they make their buying decisions based on that criteria and will quickly call out bad behavior publicly. Supplier due diligence isn't just a nice-to-have anymore; it's essential if you want to protect your business against compliance risks, maintain customer trust and generate consistent revenue growth.

About the Author

Matthew Debbage is the CEO of the Americas and Asia for Creditsafe. As a longtime veteran of Creditsafe, he has held various leadership roles including COO of Creditsafe Group and CEO of the Americas and Asia since 2012. Over the last 10 years, he led the expansion of the business in the United States, where he has built a high-performing team, driven impressive revenue growth and worked with thousands of American businesses across various industries.

FTC and CFPB Focus on Business Credit Reporting

By: Kate White, Partner Kelley Drye & Warren

In 1970, Congress was concerned that largely unknown consumer reporting agencies ("CRAs") were creating and sharing dossiers of personal information on individuals. At the same time, Congress recognized the importance of the industry—it is how most Americans can own a home or car—and sought to strike a balance that preserved both "the needs of commerce"[1] and consumers' privacy. The result was the Fair Credit Reporting Act ("FCRA"),[2] and for over five decades it has required CRAs to adopt procedures to ensure the accuracy and integrity of information in its files, share consumer reports only in limited circumstances, and provide consumers with access to their files and the ability to dispute incorrect information. The FCRA only covers consumer reports on individuals for credit to be used primarily for personal, family, or household purposes and is enforced by the Federal Trade Commission ("FTC" or "Commission") and the Consumer Financial Protection Bureau ("CFPB").

The FCRA is often considered to be the original privacy statute, and its coverage is understandably limited to reports about individual consumers and not business credit reports, since those do not raise the same individual privacy concerns. While business credit reports are outside the scope of the FCRA, in recent years the FTC and CFPB have focused on the business credit reporting industry and its potential to harm small businesses. Specifically, the regulators are concerned that inaccurate reports can result in small businesses' being unable to obtain loans at favorable rates, or being denied loans or lines of credit altogether.

In 2022, the FTC brought a case against a leading business data provider, alleging, among other things, that the company deceptively marketed products to small- and medium-sized businesses to help them provide additional payment history information that could help improve their reports and business credit scores.[3] According to the FTC's complaint, most of the additional payment history submitted by these small businesses was not accepted by this leading business data provider and were not included in business credit reports. In addition, the Commission alleged that the business data provider's failure to provide small businesses with a reasonable process to report inaccurate information in their reports was an unfair practice. As part of the settlement order, the leading business data provider agreed to implement a process through which small businesses can dispute information on their credit reports.[4] The case is yet another example of the Commission's focus on protecting not just individual consumers, but small businesses as well.

The Commission's interest in the business credit reporting industry is not limited to a single enforcement action. In March, the FTC announced a study of business credit reports.[5] Using its authority under Section 6(b) of the FTC Act,[6] the Commission sent compulsory process to five business credit reporting agencies requesting information about their methods of collecting, using, sharing, analyzing, and verifying information in their reports. The orders contain 65 questions and include requests for information on how companies market their business credit reports. In addition, the orders seek information about the companies' use of algorithms, and steps the companies take to ensure that the algorithms are explainable. In announcing this 6(b) study, FTC Chair Lina Khan said the Commission intends to use the information it obtains "to shine some much-needed light on the credit reporting industry and the related challenges small businesses face."[7] Typically, the Commission concludes a 6(b) study by releasing a report summarizing its

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1 Id. at § 1681(b).
2 15 USC §§ 1681-1681x.
3 In the matter of a leading business data provider., Case No. 1723196 (Jan. 2022), www.ftc.gov/legal-library/browse/cases-proceedings/172-3196
4 The CFPB filed a comment letter in support of the settlement (Feb. 17, 2022), www.files.consumerfinance.gov/f/documents/cfpb_proposed-settlement-agreement_commet-letter_2022-02.pdf.
5 FTC Press Release, FTC Launches Inquiry into Small Business Credit Reports (Mar. 16, 2022), www.ftc.gov/news-events/news/press-releases/2023/03/ftc-business-inquiry-small-business-credit-report.
6 15 USC § 46(b).
7 FTC Press Release, FTC Launches Inquiry into Small Business Credit Reports.

findings.[8] Sometimes these reports contain best practices guidance.[9]

Also in March, the CFPB finalized its rule for lenders to collect and report information about applications for credit by small businesses.[10] The business credit reporting industry is clearly a priority for both regulators, and they expect to "work together to ensure that small businesses are treated fairly when it comes to accessing loans."[11] The agencies have been frank that they are keen to bring increased transparency to the space, but have not indicated if they are contemplating potential action such as rulemaking or industry guidance.

For companies in the business credit reporting space, there are some clear takeaways from these latest efforts. First, companies need to be sure that their representations to customers about their products and services are not misleading. Second, companies should provide small businesses with a mechanism for reporting incorrect information. Finally, companies should take steps to ensure maximum possible accuracy of the information contained in their reports. By following the FCRA's model and implementing reasonable procedures to ensure the accuracy of their reports and providing a dispute process for small businesses, companies can reduce the risk that the FTC or CFPB will find their practices to be deceptive or unfair.

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8 *See* A Look At What ISPs Know About You: Examining the Privacy Practices of Six Major Internet Service Providers (Oct. 2021), www.ftc.gov/system/files/documents/reports/look-what-isps-know-about-you-examining-privacy-practices-six-major-internet-service-providers/p195402_isp_6b_staff_report.pdf.

9 *See* Data Brokers: A Call for Transparency and Accountability (May 2014), www.ftc.gov/system/files/documents/reports/data-brokers-call-transparency-accountability-report-federal-trade-commission-may-2014/140527databrokerreport.pdf.

10 CFPB Press Release, CFPB Finalizes Rule to Create a New Data Set on Small Business Lending America (Mar. 30, 2023), www.consumerfinance.gov/about-us/newsroom/cfpb-finalizes-rule-to-create-a-new-data-set-on-small-business-lending-in-america/.

11 Alan Ellison and Kyle Thetford, Inaccurate small business credit reports can block access to loans, CFPB Blog (Feb. 18, 2022), www.consumerfinance.gov/about-us/blog/inaccurate-small-business-credit-reports-can-block-access-to-loans.

About the Author

Former Federal Trade Commission (FTC) attorney Katherine White has deep experience in consumer protection law, with a particular focus on privacy, information security, and financial services regulations. She brings unique insights from her time in the government to help clients navigate a rapidly-evolving regulatory environment and evaluate the most strategic path forward when faced with regulatory scrutiny. Kate spent more than 14 years at the FTC. Prior to joining the FTC, she spent four years as a privacy and information law attorney at the Transportation Security Administration where she spent time covering a wide range of privacy matters, including considerations regarding biometric data.

8 Reasons to Use AI in Accounts Receivable to Stay Ahead

By: Chad Bruffey, Senior Director, Enterprise Sales, Billtrust

Have you tried ChatGPT, the natural language processing tool driven by artificial intelligence? If you haven't, it's amazing! I think we'll look back at 2023 similarly to how we remember the late 1990s/early 2000s when social media sites began to emerge (does anybody still have their MySpace profile?). We all know the power and influence that social media has had over our lives and culture – for better or worse. So get ready for AI to become an even more ubiquitous part of our lives, both at home and at work. In our professional world, many of us have already seen the ability that AI and machine learning has to automate routine tasks and enable businesses to make data-driven decisions. And as we look ahead, we have good reasons – 8 of them, in fact – to believe AI can continue to streamline accounts receivable processes and provide some incredible benefits.

1. It Boosts Efficiency

Who wouldn't rather automate manual tasks and give themselves and their teams more time to handle more strategic projects? AI can automate routine and tedious tasks such as data entry, compliance checks, invoice processing and collections. And it does so at a faster pace and more efficiently and accurately than human workers. Because you can accomplish more with fewer employees, AI helps reduce costs, too.

2. It Never Sleeps

Just set it and forget it! Once an AI system is set up and running, it can continue to operate without interruption, providing around-the-clock services and support. This makes AI particularly useful for tasks that need to be performed continuously or for businesses that operate on a 24/7 schedule. Operating in the background, AI can monitor accounts with near real-time precision, giving you up-to-date information on payment status and outstanding balances.

3. It's Scalable

Thanks to its ability to manage larger transaction volumes, AI enables you to scale operations while maintaining quality and avoiding overburdening teams. And that helps you grow your business and serve more customers without additional headcount. Plus, AI can enhance the speed and efficiency of processes and quickly adapt to changing market conditions.

4. It Makes Teams Happy

When teams aren't bogged down by mundane tasks, they are more likely to feel fulfilled and satisfied with their work. Automation through AI ensures that tasks are performed accurately and without errors, reducing the risk of mistakes and increasing the efficiency of processes. This can improve overall performance and increase employee retention at a time when keeping good talent is more important than ever.

5. It Builds Organizational Trust

With the ability to make auditing easier, detect external and internal fraud and protect against cyberattacks, using AI can maximize trust in your product, brand and company. AI can analyze vast amounts of data and identify patterns and anomalies that would be difficult or impossible for humans to detect. This allows auditors to quickly identify potential areas of fraud and other financial irregularities, both external and internal. AI can also detect potential cyberattacks and help protect sensitive financial information from theft or unauthorized access. Using AI for auditing and fraud detection is seen as proactive and innovative, which can improve the reputation of your business and attract new customers.

6. It Offers Better Financial Insights

Knowledge is power! AI systems are able to pull information from a variety of sources and process large amounts of data, which companies are now relying on heavily for better decision-making. In A/R, AI can be applied to analyze financial data and predict future payment patterns, helping you identify potential payment risks and take proactive measures to collect payment. Plus, AI gives better insights into customer behavior by identifying patterns and trends that would be difficult for humans to detect.

7. It Can Improve Cash Flow

By automating tasks and optimizing efforts in the order-to-cash space, AI can improve speed and efficiency, ensuring that payments are collected in a timely manner and that outstanding balances are managed effectively. By streamlining these tasks, AI can help organizations to improve their cash flow and maintain a healthy financial position.

8. It Offers a Better Customer Experience

Finally, AI can provide a tailored and customized experience for customers, developing individualized communication plans and a more personal touch – such as using personalized reminders in collections. AI also helps in communicating financial information to other stakeholders – internally, to vendors, to board members or other parties.

About the Author

Chad Bruffey is Senior Director, Enterprise Sales at Billtrust. His focus is helping organizations drive value through automation, optimization and standardization. Before Billtrust, he had senior-level positions with C2FO, Tungsten Network (formerly OB10), Verian and Kofax.

Streamline Your Financial Processes and Benefit from Decision Intelligence

By: Danny Wheeler, Solutions Strategy and Marketing Manager for Accounts Receivable Automation, BlackLine

In today's fast-paced business environment, organizations need accurate and timely financial data to make informed decisions. However, manual reconciliation of cash and accounts receivable (AR) transactions can be a laborious and error-prone task, consuming valuable time and resources.

That's where automated solutions step in, offering a compelling solution for finance professionals seeking to optimize their processes, minimize errors and gain valuable insights.

Here are five reasons why an automated AR solution should be an integral part of your business:

1. Save Time and Boost Efficiency

As your organization expands, so does the volume of payments and AR transactions that need to be reconciled. Manually reconciling these transactions is a time-consuming endeavor, involving arduous searches for remittances, customer account information and data entry into your ERP.

By leveraging an automated solution, you can streamline this process and allocate your time more effectively. The technology continuously learns and automatically matches cash receipts to open AR invoices. This automation significantly reduces the need for manual intervention, enabling you to concentrate on analyzing exceptions and promptly addressing customer concerns to give a better customer experience.

Accounting Today reports that companies utilizing automation in their AR processes experience a 70% reduction in time spent on reconciliation tasks.

2. Reduce Errors and Enhance Accuracy

As the volume of payments processed increases, so does the risk of human error. Manual reconciliation and data processing are prone to mistakes, leading to rework and inaccurate financial data that can have serious repercussions for your business.

A study conducted by The Hackett Group, a global consulting firm, reveals that organizations employing automation technologies for financial processes experience a 77% reduction in the number of errors.

3. Gain Actionable Insights for Strategic Decision-Making

As your organization grows, gaining valuable customer insights becomes increasingly vital. Automated AR solutions empower you with real-time data on payments, customer trends and changes, providing the decision intelligence necessary to make strategic choices.

With these solutions, you can identify patterns in customer payment behavior, identify customers who consistently pay late, and take proactive measures to reduce payment delays. Furthermore, you can assess customers who may pose a credit risk and implement measures to mitigate that risk. Additionally, advanced analytics capabilities allow you to generate future payment forecasts based on historical payment data from your customers.

A report from Deloitte highlights that organizations leveraging advanced analytics to drive decision-making experience a 33% improvement in customer satisfaction and a 32% increase in revenue, further demonstrating the potential for automated solutions to deliver actionable insights that can positively

impact your business.

4. Improve Efficiency and Refine Processes

Efficiency is a crucial factor as your organization expands. The time and resources saved by automating your AR processes can be reallocated for more valuable activities. For instance, you can utilize the time saved to make focused collections calls, nurture customer relationships, or fine-tune your processes.

By streamlining your financial operations, you can drive operational efficiency and achieve greater productivity. A study conducted by the Aberdeen Group, reveals that organizations automating their AR processes experience a 28% reduction in administrative costs.

5. A Scalable Solution

A scalable AR solution enables businesses to handle growth, adapt to changing circumstances, enhance customer experience, improve operational efficiency and optimize costs. It provides the necessary flexibility and capacity to support the organization's AR processes as they evolve over time.

As a company expands and acquires more customers, the volume of invoices and AR-related tasks increases. A scalable AR solution can handle the growing workload efficiently without significant disruptions or resource constraints. It allows the organization to manage AR processes effectively regardless of its size or growth rate.

A scalable AR solution enables organizations to provide a seamless and consistent experience to customers, regardless of their size or transaction volume. It ensures that invoices are sent promptly, payment options are diverse and convenient, and any customer inquiries or issues are addressed efficiently. This leads to improved customer satisfaction and strengthens customer relationships.

About the Author

Danny Wheeler is an accomplished technology professional with over 15 years of experience in product management, business analysis, and project management within the financial automation space. With a background in Accounts Receivable, he is currently the Solutions Strategy and Marketing Manager for Accounts Receivable Automation at BlackLine, a leading financial automation software company.

A Strategy to Reduce Post-Audit Deductions

By: Shyarsh Desai, Chief Executive Officer, Carixa

Post-audit deductions are the missed discounts, trade deals, double payments, and incorrect pricing that contingency (commission) post-auditors discover when they review old payment transactions. Post Audits are a multi-billion-dollar business, and manufacturers pay this tab.

Audits are frequently up to three years old, so your records may not be easily accessible, and a post-audit claim may consist of 100 or more line items, individually small but adding up to a large amount of money. Because of the large number of line items and their age, they frequently end up as write-offs because the manufacturer has neither the software nor the staff to address them.

Post-audit deductions are significant because fifty percent or more of post-audits can be wrong or excessive, costing hundreds of thousands or even millions of dollars annually. Post-audit errors result from auditor eagerness to profit, misinterpretation of promotional deals, or double- or triple-dipping. Post-audits can include deductions for allowances that were deducted previously or found invalid; even those repaid to you in the past can be deducted again.

In any event, it's up to the manufacturer to disprove a post-audit claim. If you don't get to it quickly, it's deducted.

Post-Audit Deductions: A 12-Step Action Plan

1. Establish and Communicate a Post-Audit Policy: Create a clear and comprehensive policy that outlines your stance on post-audit deductions. Have your CEO sign it and share it with customers and auditors to have your policies on record. Set limits on the timeframe for accepting audit claims and require proper documentation and evidence to support deductions.

2. Integrated Trade Promotion/Deduction Software: Consider a bolt-on to your ERP to manage the deduction and chargeback, timelines, workflows, resolution, and documentation with audit histories. This will enable you to quickly reconcile, validate, respond, and deny erroneous claims.

3. Safeguard Trade Secrets: Inform auditors that your marketing plans, pricing strategies, and operational policies are confidential. Emphasize the importance of keeping this information confidential to prevent potential misuse or sharing with other auditors working for different clients.

4. Streamline Trade Promotion Deal Formats: Simplify and standardize the templates for trade promotion deals to minimize ambiguity and misinterpretation. Involve your sales and marketing teams to ensure clarity and consistency in sales agreements. Avoid gray areas leading to misunderstandings, such as promotions based on confusing dates.

5. Respond Promptly to Deduction Claims: Act swiftly when you receive post-audit deduction claims to avoid missing the investigation grace period. Send a letter to auditors emphasizing your policy and requesting that they refrain from deducting until the investigation is complete. Assign a dedicated team to handle post-audit claims, establish research procedures and workflows, and track deduction key performance indicators (KPIs).

6. Enhance Document Systems: Improve your document management system to efficiently access invoices, pricing information, and promotional deal sheets, even for transactions that occurred years ago. Use automation and tracking tools to strengthen the audit trail and identify any double or triple deductions.

7. Utilize Trade Promotion and Deduction Management Software: Invest in software specifically designed for trade promotion and deduction management. This software should allow you to access all relevant information and documents associated with each transaction, such as invoices, sales data, deal sheets, and prior deductions. This integrated approach reduces the need to search through multiple systems and files when researching deductions.

8. Maintain a Post-Audit Contact Database: Create a contact database that includes relevant information about post-auditors, avoid isolating communications to auditors alone, and involve customer management if necessary.

9. Identify Root Causes: Analyze patterns and common root causes for post-audit deductions. If certain types of trade deals are consistently misinterpreted, review the clarity of your deal sheets. Review purchase agreements to ensure they align with your policies, especially when discrepancies like freight charges arise.

10. Challenge Invalid Deductions: Only settle or write off deductions with proper documentation and research. Insist on repayment for invalid deductions and demand evidence to support each claim. Taking the easy way out may encourage more deductions in gray areas prone to misinterpretation. Remember, these auditors talk with one another, so what you do in one case will impact other customer audits.

11. Enforce Policies Timely and Consistently: Be firm and consistent in enforcing your policies regarding post-audit deductions. Develop a reputation as a principled and well-managed company that does not tolerate excessive or incorrect deductions. Timely and consistent enforcement will deter auditors from taking advantage of your business.

12. Third-Party Help: Consider a third-party expert to reconcile and combat post-audit deductions on your behalf. An organization (like the author's company) offering advanced software and expert audit services can help stop the deduction profit drain. Being proactive will help protect your success and profits from being diluted by these deductions year after year.

Conclusion

In conclusion, post-audit deductions pose a significant challenge for manufacturers, often resulting in excessive or incorrect claims that can cost hundreds of thousands or even millions of dollars annually. By taking proactive measures and leveraging advanced software and services, manufacturers can mitigate the impact of post-audit and other problem deductions and safeguard their success and profits in the long run.

About the Author

As the CEO of Carixa's order-to-cash cloud technology business since 2021, Shyarsh is focused on scaling the business by deeply understanding client needs, growing the team and making smart investments in technology to back it all up. From 2012 to 2019, he was CEO of Credit2B, which was a leader in B2B credit decision automation until its sale to Billtrust, where he served as Group President.

Prior to this, he held management positions at Global Compliance (now Navex) and Dun and Bradstreet where he focused on strategy, growth and business development. In his early career, he worked at IBM in multiple roles across the enterprise, including leading key solutions for IBM in the financial services vertical and later in corporate development. Shyarsh has degrees from the University of Bombay and an MBA from Kellogg School of Management at Northwestern University.

Why Aren't Your Cannabis Customers Paying You?

By: Sam Fensterstock, AG Adjustments

Back in 2016, AGA, a global B2B collection agency first got involved in the cannabis market assuming it would be the next "dot.com" – we wanted to be front and center when the market exploded. Instead, we found very little opportunity for collection agency business. Why? Because in order for there to be a collection need, a grower, manufacturer, producer, wholesaler or distributor must extend credit, and in 2016 the market operated 99% in cash.

Fast forward to 2023, and boy have things changed – the market has exploded! Benzinga reported, in early May, that there was more than $600 million in unpaid debt across the California supply chain and cannabis-related business accounted for more than $250 million in unpaid sales and marijuana taxes. To mitigate this problem, a coalition of cannabis firms that represents about 45% of the California cannabis distribution market tried to get California Assembly Bill 766 passed earlier this year. This Bill would require cannabis licensees to pay invoices for goods or services totaling $5,000 or more within 15 days of the final date listed on the invoice, much like the alcohol industry, where each state's alcohol board determines how distributors and retailers transact their business, spelling out the consequences of nonpayment for goods and services. The passing and enforcement of Bill 766 will be a major win for cannabis companies in California and ensure that the current credit crisis in this market does not continue. But first the Bill must pass, and it could take years to implement.

Bill 766 will fix the problem, but it is not here yet. So how did we get where we are now? How did cannabis companies, just in California alone, extend more than $600 million in trade credit and not get paid? Let's look at the facts. First, there is a surplus of cannabis and cannabis-related products available in the market. This has driven prices down and given retailers a lot of leverage when setting credit payment terms. Second, many companies decided to increase sales numbers by getting as many customers as possible. They were willing to take the necessary risk associated with extending credit to on-board these additional customers. However, when extending credit, if you have not evaluated the company's creditworthiness, you may be taking an unreasonable risk. This is the primary reason that there's more than $600 million on the street in California. Most companies in the cannabis market extended "friendship credit", which is not based on a formal "credit analysis" typically used to determine the "creditworthiness" of a customer. Companies that extended "friendship credit" did not realize the financial risk and it has come back to haunt them.

To exacerbate the problem, most cannabis companies that are extending credit do not have a formal "accounts receivable" or "credit" department established to manage the order-to-cash process. These departments ensure that customers are held to their credit terms and that accounts receivable are collected in a timely manner. Not having these controls in place is probably the biggest mistake a cannabis company can make.

If you are extending credit, you must have a process in place to manage your credit risk and ensure the consistent cash flow essential to meet your company's operating needs. This requires implementing the systems and software necessary to automate the process and to ensure that monies due are collected. If your products are going out the door and there is no cash coming in, your business will fail.

What Can You Do to Ensure That You Get Paid for Your Products and Services?

1. Hire an Accounts Receivable / Credit and Collections Manager

If you are going to extend credit you must hire a Credit and Collections Manager, whose primary function is to manage the entire credit-granting process. This includes (1) developing a formal credit policy; (2)

consistently implementing and managing the terms of the credit policy; and (3) collecting the accounts receivable which includes dispute resolution. Periodically, the Credit and Collections manager will review the credit status of existing customers and evaluate the creditworthiness of potential customers. The net result: increased sales, fewer bad debts, and a better bottom line.

2. Implement a Credit Application and Credit Approval Process

A credit application is a contract between seller and buyer. A good credit application will benefit the seller; a bad one will benefit the buyer. Therefore, it is important to be certain the credit application, whether electronic or on paper, contains all the safeguards and guarantees available in order to reduce credit risk. The credit application provides basic information about your customer's business and is one of the primary tools available for protecting your company and controlling credit risk. Even customers who pay COD should fill out a credit application. Securing a credit application does not guarantee payment, but it is one of the tools used to assist in making good credit decisions and ultimately collecting past-due accounts receivable and associated collection fees.

One of the biggest challenges in the cannabis market is making a good credit decision. In the traditional B2B market, sellers have the luxury of accessing very good credit data on both public and private companies through leading credit bureaus, such as Dun & Bradstreet, Experian and Creditsafe. While none of these bureaus have traditionally been able to supply specific cannabis-related data, many now have some data on trade lines, UCC, Suits and Tax Liens available. The number one reason a small business fails is by not paying their taxes, and the leading credit bureaus all have monitoring and alert services to help track this information.

3. Implement A Collection Strategy

In the traditional B2B trade credit world, if a customer has Net-30 terms and they have not paid by day 31, they are considered past due and delinquent. Most companies will implement a collection strategy that details how to respond to a customer that is past due or severely past due. When extending Net-30 terms and a customer is 90 days past due, they are considered seriously delinquent. However, given the nature of the cannabis market and the fact that standard collection practices are not the standard, we advise that customers be considered severely delinquent when 60 days past due.

Here is a sample collection strategy to help manage a customer on credit terms.

- 5 days before the invoice is due, a reminder email is sent out along with copies of the outstanding invoices.
- The day before the invoice is due, another email reminder is sent with a link to pay online as well as other payment option details.
- On day 31 - if the invoice is not paid, an email is sent notifying the customer that they are now past due.
- On day 35 - if the invoice is not paid, a phone call is made to collect payment.
- On day 40 - an email demand for payment is sent, and a phone call is made.
- On day 47 - another email demand for payment is sent, and a phone call is made.
- On day 52 - a "Past Due" email is sent.
- On day 60 - a "Final Demand" email is sent letting the customer know that if payment is not received within 10 days, the account will be referred to a collection agency.
- On Day 70 - if no payment has been received, the account is sent to a collection agency.

4. Have a Formal Policy in Place That Moves a Non-Paying Customer to Collection

In the B2B collection market, average gross recoveries are typically in the 35% to 40% range, and the aver-

age account is placed for collection at approximately 150 days past due. In the cannabis market, however, recoveries are only in the 15% to 20% range. Why? It's simple – as we have seen many times over the past seven years, most debt in the cannabis market is uncollectable because most cannabis companies do not have a good internal collection strategy (as detailed above) and hold on to non-paying customers for far too long before placing the accounts with a collection agency. The average placement we have received in the cannabis market is 285 days past due. When a placement is that delinquent, very frequently the customer is already out of business or uncooperative, and the only recourse is litigation.

The following are five signs that your cannabis customer may need to be placed for collection:

1. Your customer is over 60 days past due.
2. Your customer is not returning your phone calls or emails.
3. Your customer is purchasing erratically.
4. Your customer has stopped buying.
5. You receive negative trade information about the customer from other suppliers.

Conclusion

We have covered some of the basic reasons that explain why cannabis companies are having a problem getting paid, and what they can do to solve the problem. They must acquire the software and implement the systems necessary to automate the order-to-cash process. Additionally, a plan must be put into place to reduce credit risk and increase the probability that your customers will pay on time. Approximately 50% of payment issues result from not having the right processes and people in place to manage order-to-cash. If you want to ensure your cannabis customers will pay you, try implementing our 4-step processes for positive results in a short period of time.

About the Author

Sam Fensterstock is the SVP of Business Development at AG Adjustments (www.agaltd.com). AGA is one of the nation's leading providers of 3rd party commercial collection services. Sam oversees AGA's sales organization as well as corporate partnerships and marketing. He has more than 25 years of experience as a Senior Business Development Executive, Manager and Coach in the commercial credit and collections space. He is passionate about helping companies improve their order to cash process with a specific focus on credit risk and collection management. He has been a founder and played a key role in the dynamic growth of several leading niche commercial credit risk management companies and is considered an expert in the order to cash and credit and collections process. Prior to joining AG Adjustments Sam was the Director of Business Development at PredictiveMetrics, a statistical based credit and collection scoring and modeling company that he helped grow and sell to SunGard (FIS) in 2011. AG Adjustments has been a Platinum Partner of The Credit Research Foundation since 2000. Sam can be reached at samf@agaltd.com or 631-719-8096.

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