2017 Accounts Receivable

FIELD GUIDE

– Current Technologies and Best Practices

Learn About

Electronic Invoicing // Cash Application and Reconciliation // Improving Collections // Deduction Management // Increasing Cash Flow // The Value of the Cloud // AR Automation

centreviews

ABOUT THIS GUIDE

Today's Accounts Receivable (AR) professionals face many challenges. Buyer's strict invoicing requirements for support documentation makes it difficult for AR teams to avoid deductions or delays in payments.

The increase in electronic payments has led to disjointed remittance, which continues to slow down and complicate the cash application and payment reconciliation processes. Compound these challenges with audit requirements and high volumes of invoices and you have a recipe for an overworked, stressed out AR staff.

THIS FIELD GUIDE COVERS THE FOLLOWING AR SUBJECTS

Electronic Invoicing

Cash Application and Reconciliation

Improving Collections

Deduction Management

Increasing Cash Flow

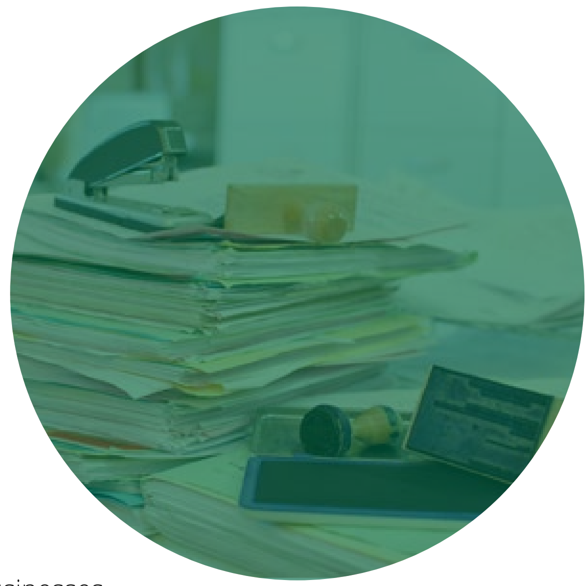
The Value of the Cloud

AR Automation

We created this technology-inspired field guide to introduce and enhance your understanding of the world of modern AR technologies and best practices. We will identify tools that reduce the daily friction points, increase productivity and save money.

ELECTRONIC INVOICING

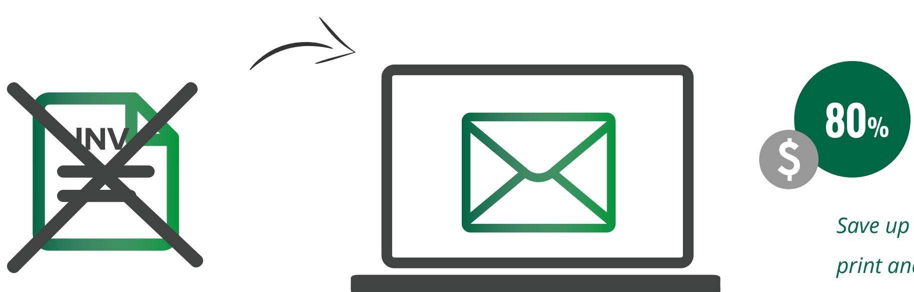
OUTDATED PAPER PROCESSING



When a company relies on delivering a paper invoice, it is incurring a higher cost of delivery and promoting the customer's use of outdated manual workflows to approve and pay invoices. This work takes much longer to accomplish and may cause delays in receiving payments and increasing DSO. A piece of paper may be passed from desk to desk, lingering in an inbox for days before someone finally signs off on it and sends it to the next person on the approvals list.

ELECTRONIC INVOICE DELIVERY (E-INVOICING)

Reducing print and mail costs has long been a focus for businesses that send out high volumes of invoices and statements to their customers. Today, companies of all sizes are taking advantage of email delivery of electronic invoices. Invoicing via email can save up to 80% of conventional print and mail costs with the elimination of paper, postage and manual labor. Many customers of Accounts Payable departments that have adopted automation technology prefer to receive emailed invoices at centralized email addresses. From a vendor standpoint, e-Invoicing via email is the best way to serve progressive customers and ensure timely payment.



PAPER INVOICES

EMAIL INVOICES

Save up to 80% of conventional print and mail costs with the elimination of paper, postage and manual labor.

Some ERP and billing systems provide basic e-Invoicing functionality that works well for smaller companies. When invoice volumes exceed 1,000 per month, many companies are turning to more sophisticated email capabilities. Those include greater "deliverability" capabilities to avoid spam filters and controls, including the ability to know when emails are received and opened, as well as multiple re-send of emails based on business rules.

Email bills, or e-Bills, can also display important messages, including marketing content for business-to-consumer billing applications.

Electronic invoicing technology vendors can also provide billing portals where invoices can be viewed and paid often, called Electronic Invoice Presentment & Payment (EIPP). Asking customers to visit your portal may not always be the most customer friendly or best way to ensure timely payment. However, EIPP can be a nice compliment to email invoicing for high volume customers who might benefit from this approach or others who simply prefer self-service.

Delivering invoices as fast as possible is a prime way to reduce DSO. Electronic invoice delivery can eliminate 3 to 4 days of delivery time. Many buyers will start the aging period for the invoice terms, i.e. net 30, based on the date the invoice is received.

HOW ACCOUNTS RECEIVABLES AUTOMATION HELPS

Technology is becoming available to track an invoice, which can also help track invoice delays. The capability to combine support documents with invoices also helps reduce DSO.

CASH APPLICATION AND RECONCILIATION

SIMPLIFY INVOICE AND PAYMENT MATCHING TO COMPLETE CASH APPLICATION

Each day, accounts receivable departments reconcile payments with invoices using remittance information to complete cash application. Many transactions cannot be reconciled when the payment is received because they do not have access to the remittance information and due to deductions, short pays and chargebacks. This problem is being magnified as electronic payments via ACH, card and wire replace traditional lockbox processing of checks. With lockbox processing, remittance usually accompanies the check. With electronic payments, associated remittances are received through separate processes with payments coming from the bank and the remittance information going directly to the seller, usually via email. This can delay the end-of-month close and make it more complicated.

There are two major steps to deal with in-cash application.

1. The first step is to match payments with invoices so the ERP system can be updated to show payment has been made.

2. The second step is to deal with all invoices that have a payment that is different from the original bill that was presented.

Cash application is very simple if a payment is received for each invoice that is sent out. It is a one-to-one association. The problem occurs when multiple shipments are made to a buyer. Each shipment has an invoice associated with it. The buyer accumulates the invoices, totals them and sends one payment. The buyer sends a list of invoices showing the amount paid (the remittance list).

With traditional lockbox, the seller receives the payment amount and the remittance list. The remittance information received with the check is either keyed by the bank or by the seller's personnel. Approximately 90% of payments and invoices match when using this methodology.

The advent of ACH and card payment has brought a new problem. The seller still receives the payment from the bank as with lockbox. However, the bank, in most cases, does not receive the remittance with the payment. One exception is CTX. When CTX is used, the bank does receive the remittance information from the buyer with the payment instructions and sends it to the seller. The balance of the remittance comes via email directly to the seller. In some cases, the seller has to go to the buyer's website to retrieve the remittance. Once the remittance and payment information are obtained, the seller's personnel must match the invoice and payment amount using the remittance information, an arduous task. The results are then keyed into the ERP to complete the cash application process. New technology and Robotic Process Automation, RPA, reduce the effort and time this process takes.

The second problem is dealing with paid invoices that have an amount that differs from the original amount billed. The differences are typically due to deductions, short pays or chargebacks. To resolve this issue, personnel must find support documentation to validate the deductions and reconcile the differences. Experience shows that approximately 72% of the differences in payments are legitimate. Reasons might be that discounts were provided to the buyer, short shipments occurred, or goods were damaged in shipments. In these cases, it is necessary to create a credit memo to update the differences in the ERP system. The other 28% of the differences require acquiring support documents and other materials and then communicating with the AP Department or the buyer to correct the situation. However, these industry wide averages can be misleading. In most situations, only 30% of the assumed invalid deductions are looked at and the remaining 70% is ignored and the revenue is lost.

This means that in many businesses less than 9% of all deductions are reviewed. If differences cannot be resolved, receivables dilution occurs, resulting in lost profits.

HOW ACCOUNTS RECEIVABLES AUTOMATION HELPS

Technology can be used to store invoices and supporting documents to provide the visibility necessary to look at deductions more efficiently.

IMPROVING COLLECTIONS

MISSING DOCUMENTATION

When a business relies on paper to support its collection operations, that business sees a dramatic lag in productivity. Whenever a retailer questions or disputes an order, invoice, etc., a supplier wastes time going through stacks of files to correctly answer the inquiry. Even the best-organized paper-based system can be problematic, since important documents can be lost.

According to the National Association of Paper Organizers (NAPO), executives waste six weeks per year searching for lost documents.

Of the eight hours per week people waste on paper document management, one hour is spent searching for documents, one hour troubleshooting issues with sharing documents, one hour in distribution and storage, and a half an hour on archiving and retrieval.

8 hours / week =
6 weeks / year

wasted on dealing with lost paper documents

HOW ACCOUNTS RECEIVABLES AUTOMATION HELPS

In recent years, businesses of all sizes have realized the benefits of electronic document management. With just a couple of keywords, employees can search thousands of files for the needed information, then transmit that document electronically to the person requesting it. Some businesses have even set up a portal to allow vendors to search the information they need themselves, giving those third parties access to whatever information they need, whenever they need it. This automation, in combination with electronic workflows based on business rules, creates the greatest efficiency for managing all of these documents.

DEDUCTION MANAGEMENT

DEDUCTION MANAGEMENT

Each month, businesses deal with unexpected dilution of receivables in the form of "unauthorized deductions." Deductions cut into a business's profits, eventually leading to long-term problems. Through deduction management, businesses can predict and prevent unauthorized deductions to protect as much as possible of its monthly revenue and profits and protect gross margins.

CHARGEBACKS AND DILUTION

With the changes to the economic landscape of the last decade, the retail industry is under a lot of financial pressure. This means vendors are encountering an increased number of unauthorized chargebacks and short pays as retailers are looking for ways to increase their profitability. Unfortunately, the manufacturing and distribution industry is feeling the backlash from the retailer's push for profitability and sometimes even its very own survival. Chargebacks and short pays are significant factors as an ever-growing source of receivables dilution. As the marketplace becomes even more competitive, manufacturers are desperately seeking solutions to dispute unauthorized/erroneous chargebacks and short pays to improve collections and profitability.

Chargebacks happen when a retailer initiates a deduction for an order that they feel was not fulfilled, was processed incorrectly, was not compliant with billing/shipping requirement, or a host of other reasons. Whether they claim they did not receive a full shipment or that the shipment wasn't what was agreed upon, chargebacks negatively affect a supplier's dilution rate and profitability. Short pays are usually arbitrary. A large quantity of invoices is totaled and the retailer takes a percentage discount on the entire payment.

The chargeback and short pay investigatory process is complex and time consuming and vendors often lack the proper documentation to push back on the retailers and claw back unauthorized deductions. They may have the proper documentation but lack the resources necessary to gather what they need to prove their side of the story. Without accurate and proper documentation in hand, vendors are unable to dispute the chargeback claims of retailers, culminating in significant losses to their bottom line. If these support documents – order, pick ticket, BOL, POD, etc. – are stored electronically, then they can be accessed instantly for dispute resolution.

Dilution is the difference between the face amount of an invoice or a group of invoices and what the account debtor actually pays. So, chargebacks and short pays directly affect your dilution rate, your cash flow and your profitability.

INCREASING CASH FLOW

LET'S LOOK AT A TYPICAL DILUTION CASE

US Hoodie Manufacturing

US Hoodie Manufacturing invoices Southland Department Store $60,000 for merchandise they ordered. Southland receives the shipment and upon inspection, finds that some of the hoodies are damaged. Instead of returning the damaged goods to US Hoodie to be replaced, US Hoodie authorizes Southland Department Store to deduct the value of the damaged hoodies from its payment to Southland Department Store. The deduction from the damaged goods totals $5,600, so Southland Department Store pays US Hoodie $54,400. The $5,600 deduction that Southland takes is dilution.

NOW LET'S CHANGE THE CASE SLIGHTLY

What happens when the deduction from the damaged goods totals $5,600, but Southland Department Store pays US Hoodie $50,000? There is still $4,400 missing from the total amount due. Now, if US Hoodie wants to go after the money owed, they need to compile all of the documentation to refute the unauthorized chargeback and they need to do it in a timely manner.

$54,400
– $50,000
$4,400
Missing amount

The longer it takes to provide the documentation to refute the unauthorized deduction, the lower the probability of collecting the money owed.

HOW DOES US HOODIE GO AFTER THE MONIES OWED?

Resolving chargebacks is a tedious and time-consuming process. Generally, at the end of the process, the vendor needs to provide documentation that proves the chargeback was unauthorized or deducted in error. With an abundance of paperwork and disconnected processes, this is difficult to do. However, if the documentation provided is satisfactory, the disputed chargeback amount will be paid back to the vendor.

UNDERSTANDING CLOUD

“In the simplest terms, cloud computing means storing and accessing data and programs over the Internet instead of your computer's hard drive. The cloud is just a metaphor for the Internet.”

Griffith, Eric. “What Is Cloud Computing?” See entire article here. Accessed 23, December, 2016.

Cloud computing is a pay-per-use model for delivering a convenient on-demand solution to a shared pool of configurable computing resources that can be rapidly deployed and released with minimal management effort or technical support.

The adoption of cloud computing is having a significant impact on companies and their technology (IT) departments. Small and mid-market companies that do not have the capital or human resources to implement complex systems are able to take advantage of AR automation via the cloud. The risks and delays associated with implementing an in-house automation solution are significantly reduced. The value derived from cloud-based solutions is greater than a traditional software license solution since the acquisition and maintenance costs for a cloud-based solution is minimal.

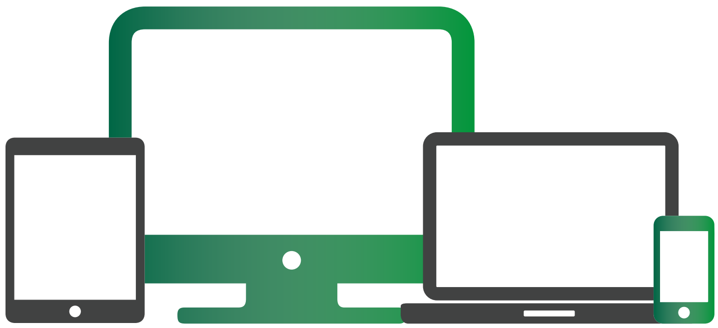
Users of cloud-based AR automation can also take advantage of the best practices developed through many different users' input to enhance processing. The cloud will enhance the productivity of a mobile workforce by enabling workers to access critical decision making information from anywhere, at any time. Cloud computing is a scalable solution that is elastic and can be quickly and easily scaled up or scaled down to meet the company's specific needs.

AR AUTOMATION

Some accounting departments might be hesitant to embrace automation because it seems too complicated and they feel that it will result in a lack of control. But really, AR automation is an easy way to save time and free up employees to be more productive on the job. With the additional time, employees can work on the exceptions that arise along with cash application and other receivables issues.

A good automation solution provides instant access to all critical information related to the invoice or group of invoices in question. Whether it's a bill of lading, a purchase order, or proof of delivery, all important documents are captured, matched and linked together in a cloud-based centralized repository. This means that when an invoice gets disputed, your team can quickly and easily pull up all the related documents, providing a clear picture that helps remediate the dispute instantly. Business rules should dictate how you restrict access to specific documents based on the user's requirements and authorization.

AR automation solutions need to also support integration – for automation to exist it has to integrate to other systems. The ability of a system to send and receive current information is vital so that your users can access and use the documents they need, when they need them.



NOT ACCESSIBLE FROM MULTIPLE LOCATIONS

Paper-based documents can only be accessed in one location, which can be problematic for today's mobile, decentralized or remote workforce. Team members can be challenged to collaborate on a file that must be copied and distributed before it can be discussed. To get around this issue, businesses will often scan documents and share them through email or a cloud-based collaboration tool, the latter of which offers the option of remote access using a PC or mobile device.

Workers today expect instant access to the information they need. When processes are outdated, it can inhibit a team's ability to collaborate and share information, impacting both productivity and team bonding. When surveyed:

64% *of respondents admitted that cloud-based collaboration tools speed up a business's ability to manage tasks.*

82% *of leaders asked the same question said cloud-based collaboration tools improved efficiency.*

ACCOMMODATING AUTOMATION

As we've discussed, automation has no problem dealing with the challenges many AR departments face with a lack of visibility or control, but what about the resources required to implement an automation solution? The beautiful part about cloud-based automation systems is that they can be implemented in pieces. While you may have multiple areas you'd like to address, but one area is a higher priority, you can focus on solving one problem at a time. On the other hand, if you recognize the challenges that come from the entire process, you are also able to automate everything at once.

FAST FACTS

#1 The number 1 benefit of automation is to enable the use of electronic invoices to provide faster delivery of invoices and reducing DSO.

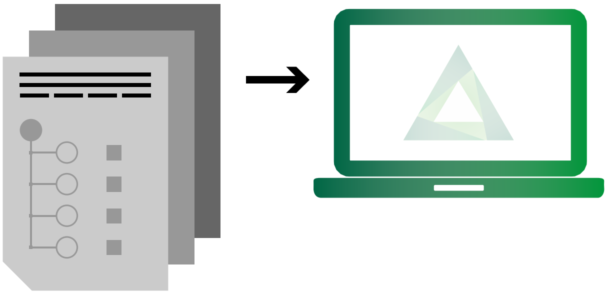
#2 The number 2 benefit of automation is assisting in rapid collections by providing visibility into unpaid invoices and support documentation.

#3 The number 3 benefit to automation is to reduce the amount of time that accounting departments spend looking for critical documents, improving their bottom line.

#4 The number 4 benefit of automation is reduction in unauthorized/erroneous deductions by having instant access to support documentation to dispute and resolve any issues.

WHY MODERN ACCOUNTING PROFESSIONALS LIKE AUTOMATION

- ✓ *Saves time.*
- ✓ *Allows them to find documents no matter what location they're working from.*
- ✓ *Reduces the amount of unproductive work.*



AR SUCCESS STORY

UNITED LEGWEAR COMPANY

As a global manufacturer of socks, tights, and underwear, United Legwear Company, LLC has established itself as a leader in the industry. People of all ages wear ULC's products, which can be found in stores around the world, through major retailers and ecommerce sites. As ULC grew, it faced some of the same challenges that plague many businesses in the manufacturing and distribution industry. ULC was experiencing issues with managing a large number of chargebacks and deductions. These incidents were cutting into the business' profits and affecting cash flow.

AT A GLANCE

Profit Solutions Group, Inc. (PSGI) a leading chargeback recovery/deduction management outsource company with headquarters in New York City, was engaged by ULC to reduce its dilution rate, as well as manage the A/R Department and implement best practice processes. One of the first actions that PSGI initiated was to bring the Centreviews Receivable Solutions to the project. United Legwear Company, LLC (ULC) is equipped with Receivables Solution, a component of the Centreviews Business Intelligence Suite, to organize and link documentation in order to manage chargebacks and deductions.

> *Centreviews Receivables Solution gives our staff the tool they need to cost-effectively research and manage chargebacks. Using Centreviews Receivables Solution has resulted in lower dilution, increased recoveries, and improved cash flow and profitability. Our management and lender are both pleased with the results. Thank you API and PSGI!*

Alan Mandell
ULC's Vice President and Group Financial Controller

USING CENTREVIEWS RECEIVABLES SOLUTION

Centreviews Receivables Solution is an ideal solution for ULC and many other companies, allowing them to automate their accounts receivable process and create a centralized archive of all receivables information with all documents associated with a transaction linked together.

ABOUT CENTREVIEWS

Centreviews is a business intelligence suite dedicated to providing full support for a business's back-end operations. Specialists work directly with businesses to transform outdated processes into fully-automated procedures that save time and increase accuracy. Centreviews helps businesses automate their accounts payable, accounts receivable and document management processes as needed. With its secure, easy-to-use interface and singular platform for Receivables & Payables, Centreviews has become popular with business across the globe.

> *Businesses interested in automating all or part of their back-end operations can contact Centreviews to learn how we can help. This free video demonstration can help your business decide if Centreviews is the right choice for you.*