HOW TO BUILD FINANCIAL RESILIENCE THROUGH AR INTELLIGENCE

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Cash flow visibility is crucial in turbulent economic times.

Financial situations and market conditions can turn on a dime.

But most accounts receivable (AR), credit collections, and credit risk teams don't have the visibility they need to quickly identify cash flow trends and effectively manage working capital.

They are sitting on a mountain of data that they cannot use.

But the intelligence built into some AR solutions is changing all that.

AR intelligence instantly puts live payment data, customer payment behavior metrics, and debtor performance information at the fingertips of the financial decision-makers who need them.

These analytical tools surface the decision intelligence that businesses of all sizes need to make timely and impactful commercial and financial decisions, no matter the economic environment.

This white paper details the biggest challenges with traditional approaches to AR reporting and reveals four ways that real-time payment data can help businesses maximize cash performance.

The AR reporting challenge

If your AR, credit collections, and credit risk teams spend hours of manual effort compiling Excel reports and mining payment data, you are not alone. AR reporting is a largely manual affair.

What's more, most businesses sit on more data than they can consume. Valuable insights that can help drive better and more timely decision-making are often drowned out by noise.

Inefficient and incomplete reporting creates big challenges for AR departments:

Inaccurate cash forecasting

Cash forecasting is critical in times like these. Businesses must ensure that they have the working capital they need to meet operational needs and avoid costly borrowing.

But preparing a cash forecast is easier said than done for most businesses. Without an automated solution, someone must gather data about cash inflows and outflows, analyze historical trends and identify patterns, create a forecast of future cash inflows and outflows, and identify potential cash shortfalls. Once the cash forecast has been created, someone must then monitor actual cash performance and periodically revise the cash forecast to reflect changes in the company's business environment for financial situation.

Manually preparing, monitoring, and revising cash forecasts can be time-consuming and error prone. What's more, manual cash forecasting can become increasingly complex as the business grows. And it's easy for key variables for the cash forecast to be overlooked or mis-keyed.

47% of financial professionals want to improve the accuracy of their cash forecasts[1].

Too much debt that is not being released into cash

Extending terms to customers is typically a commercial necessity. But poor visibility into customer payment terms across a portfolio, and how customers are performing against their payment terms, can make it hard to keep things in check.

While the impact of uncontrolled payment terms on working capital can seem insignificant on an individual customer basis, the amount of debt outstanding across an entire customer base can be staggering. Left unchecked, extended payments can cause cash flow issues from delayed payments, difficulty predicting when customers will pay, increased risk of non-payment, strained relationships between a business and its customers and suppliers,

1 Association for Financial Professionals, 2020

increased overhead associated with managing late payments and customer disputes, and challenges effectively managing accounts receivable and accounts payable.

Only 45% of businesses have a good understanding of their customers' payment behavior and terms[2].

Difficulty prioritizing collections

Most collections teams can never be sure how to prioritize their work. The root of the problem is that most collections teams cannot easily see each customer's amount of debt outstanding. Few ERP applications offer tools for analyzing the sales ledger. And most AR solutions don't offer an analysis of customers with overdue invoices.

Unfortunately, manually wading through the vast amount of data in the typical company's sales ledger is time-consuming and prone to things being overlooked. Manual processes and traditional approaches to sales ledger reporting also make it difficult to break out payments that are not yet due from those that are overdue. What's more, simultaneously analyzing the range of variables that go into sales data – including product categories, sales channels, and geographic regions – can be challenging.

And reliable sales ledger insights can be hard to come by when data is incomplete, inaccurate, out of date, or poorly organized. To improve cash flow and reduce the risk of bad debt, AR teams must find ways to analyze the sales ledger to identify overdue accounts and implement strategies to collect payments faster.

Improving cash flow is a top priority of 60% of credit and financial professionals. 35% say that reducing past-due accounts is a key area of focus[3].

Poor visibility into customer payment behavior

The use of credit in business transactions is essential to business growth and stability. It's commonplace for businesses to sell products or services to other businesses on credit terms, allowing them to pay later.

Of course, there's a risk that a business won't be paid for goods or services sold on credit terms, impacting its cash flow, financial stability, and profitability. The risk of default increases significantly during economic slowdowns or industry disruptions. To mitigate the risk of bad debt, credit and AR teams must regularly monitor customer credit risk. But monitoring customer credit risk can be challenging.

A business may have limited information about a customer's credit worthiness. A customer's financial circumstances can change quickly. And few credit and AR teams have the time, resources, or technology to analyze customer data to assess their credit risk. In uncertain times like these, it's imperative for businesses to monitor customer credit risk to minimize the risk of bad debt and ensure the company's financial stability.

Trade credit represents approximately 60% of all business-to-business sales in the United States[4].

These challenges make it hard for finance leaders to access the information they need.

But it doesn't have to be this way.

Real-time, strategic data

The intelligence built into some AR solutions reduces the time and effort to produce reports, so AR, credit collections, and credit risk teams have the information they need to drive meaningful action.

These analytical tools unify data and processes across multiple systems, enterprise resource planning (ERP) applications, and regions to deliver insights into payment

2 Atradius, 2020
3 National Association of Credit Management (NACM), 2020
4 National Association of Credit Management (NACM)

data, customer payment behavior, and debtor performance. Activity from the company's cash application solution is captured to provide reports on bank utilization, Days Sales Outstanding (DSO) at the company and division level, payment forecasting, sales ledger analysis, cash collected to terms, and customer behavior.

AR intelligence improves commercial and financial decision-making in four significant ways:

1. **Payment forecasting.** Imagine if you could predict the value of payments your business could expect to receive over a six-week period. Your business could make better-informed decisions about spending, investments, and overall financial planning. The intelligence built into leading AR solutions makes this vision a reality.

   The technology uses data from the cash application process to learn customer payment behavior and patterns and forecast future payments based on the predictability of their payment patterns. These analytical tools can even indicate debt on the sales ledger that cannot be forecasted accurately. The success rate of the forecasts is measured over time and reported.

   Payment forecasting helps treasurers make working capital decisions and more accurately forecast cash flow. Credit collections teams can use payment forecasting to analyze the effectiveness of different collections strategies. And payment forecasting frees AR staff from the time-consuming and error-prone task of manually gathering data and creating cash flow forecasts in spreadsheets.

71% of finance professionals rated cash forecasting as a top priority[5].

2. **Payment analysis.** Has your business lost revenue or missed opportunities because it didn't have full control over its customer payment terms? If so, your business is not alone. The larger your business, the bigger the impact of extended payment terms[6].

   The intelligence built into leading AR solutions provides businesses with the insights they need to take control of their payment terms. These analytical tools track and measure customer payment terms, how customers pay on those terms, and the outstanding debt position from payment terms. In cases where a single customer has different payment terms depending on the goods or services sold, terms can be split by invoice.

   By analyzing cash collected to terms, treasury and finance teams can see the working capital impact of payment terms being offered to customers. Sales teams can see customers with extended terms, and their performance against those terms, to determine whether commercial agreements need review. Reporting for cash collections and cashflow reporting is instantly available to AR leaders. And credit collections teams can drill down into the detail of the analysis to target customers and determine the best possible collections strategy based on payment terms and debt position. All this helps stakeholders understand the impact payment terms are having on the business.

Extended payment terms can cost a business up to 5% of its annual revenue, on average[7].

3. **Targeted collections.** Few collections teams have the resources to effectively manage their company's entire customer portfolio. But a lack of technology makes it difficult for collections teams to know the value of debt outstanding represented by individual customers, or how much debt is overdue and not yet due.

   As a result, most collections teams simply divide the company's customer portfolio among the team, without prioritizing any customers. The intelligence built into leading AR solutions provides the sales ledger analysis that collections teams need to focus their efforts and accelerate payments. These analytical tools show the value of debt outstanding by customer or invoice and the number of customers or invoices that fall within a value band. Users can instantly see a list of customers with

5 Association for Financial Professionals, 2020
6 Mastercard, 2021
7 Mastercard, 2021

past-due payments and customers with payments that are not yet due. Data can be broken out by division and business unit and viewed by “working month.”

These insights help collections teams target their efforts. By targeting their collections efforts, businesses can optimize their resource allocation, develop specific collections campaigns, and reduce costs. For instance, businesses can assign more resources for collections efforts to higher-value accounts and allocate fewer resources to smaller-value accounts that don’t appear to be an exception.

78% of CFOs rank improving cash flow as a critical objective. Sixty percent of CFOs say their company plans to invest in improving their collections processes[8].

4. **Reduced bad debt exposure.** Managing ongoing credit risk is essential in turbulent economic times. Understanding trends in a customer’s payment behavior and sales performance can provide strong clues that it might be time to reevaluate their credit worthiness.

   The intelligence built into leading AR solutions help credit and sales teams assess customer payment trends across the company’s entire customer portfolio. The technology provides real-time comparisons of each customer’s invoiced sales and payments. Users can instantly see the percentage variance by month. Information can be filtered by calendar year, customer account, or the amount of outstanding debt. And customers can be ranked by size of variance in month-on-month invoicing. The customer behavior insights provided by AR dashboards make it easy for credit managers to analyze each customer’s risk profile and the effectiveness of different collections strategies. Sales teams can use payment behavior insights to identify opportunities to provide more credit and trends that may warrant further investigation as well as review of a customer’s credit line or payment terms.

   For instance, slower payments from a customer that recently increased its purchases might suggest that the customer is experiencing a cash flow problem and had trouble obtaining credit from other suppliers. Conversely, a customer that recently increased its purchasing, but continued to pay on time might be a good candidate for more credit. CFOs can use customer behavior insights to improve collaboration between credit and sales teams.

Approximately 40% of small businesses extend credit, compared to 15 percent of large businesses[9].

With these types of AR insights, finance leaders can improve decision-making, uncover trends, and proactively respond to potential issues that can impact the company’s cash flow and working capital.

Be ready for whatever comes next

Cash flow analysis and working capital management mean more in uncertain times like these. Businesses cannot afford the risk of making important commercial and financial decisions using incomplete, inaccurate, or outdated information. The intelligence built into leading AR solutions ensures that decision-makers always have access to the timely and critical information they need.

8 The Hackett Group, 2021
9 Federal Reserve, 2020

About BlackLine

Companies come to BlackLine (Nasdaq: BL) because their traditional manual accounting processes are not sustainable. BlackLine's cloud-based financial operations management platform and market-leading customer service help companies move to modern accounting by unifying their data and processes, automating repetitive work, and driving accountability through visibility. BlackLine provides solutions to manage and automate financial close, accounts receivable, and intercompany accounting processes, helping large enterprises and midsize companies across all industries do accounting work better, faster, and with more control.

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Our enduring commitment to serving the accounting and finance professions is unmatched. IOFM has certified over 25,000 accounting and finance professionals and serves several thousand conference and webinar attendees each year.

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