Improve cash flow and optimize working capital

a guide to supercharge Accounts Receivable

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Leverage Best-in-Class automation solutions to achieve greater AR Automation

At the heart of every Accounts Receivable department are effective, efficient processing practices, evidenced by such clear KPIs as the accurate and timely posting of incoming payments and efficient dispatch of exceptions and discrepancies. Today's automation solutions are enhancing these markers, and yet many businesses demonstrate a hesitancy to take full advantage of the array of automation tools available to maximize AR performance. Research shows cash application methods can reach high automation levels with the right focus and advanced automation solutions.

The importance of an efficient AR department is paramount to business success. By reviewing cash application methods step-by-step we can apply modern automation theories, KPIs and industry benchmarks, and robust case studies to verify and conclude that automating cash application processes significantly increase the success of cash application in general.

High operational costs mirror the lengthy time required for manual cash application. Labor costs speak for themselves, the expenses associated with processing time resulting in delays where money is held hostage and late fees, interest charges and unhappy customers mean added expenses. The erroneous nature of manual cash application also costs dearly; the price of resolving and reconciling creating huge divots in reconciliation budgets. In fact, the level of complexity, in particularly high-volume instances in concert with error-prone manual processing, combined with the unpredictable makeup of reconciliation alone, spells large cost expenditures and other negative business impacts.

Greater Efficiency in Automation Increases Visibility Across the Entire AR Cycle

To enable the cash application process, customers make payments via check or via electronic payment methods including credit and debit cards, wire transfers or credit transfers, automated clearing house (ACH), lockbox services and other digital funds transfers like corporate trade exchange (CTX). Once received, an electronic file is forwarded to the vendor's AR system and the cash application program takes over.

The biggest reason for time delays in cash application systems originate in the continued use of manual processing and resistance to fuller automation. Problems and delays stem from the sheer amount of time it takes to physically reconcile payments, particularly in handling exceptions and discrepancies. The number of staff involved in manual processing increases delays due to the nature of coordinating and communicating multiple needs. Further complicating matters are the inevitable aspects of cash application — partial payments, deductions, and various other discrepancies, issues as numerous as there are forms and flows of payment.

Several of these factors can limit the effectiveness of some auto cash automation programs. For example, short-paid remittances that cannot be reconciled fully due to the limitations of the cash app; customers with several AR accounts that require specific reference numbers and/or coding; and technical constrictions that cap application functions. All of these circumstances delay the proper application of payments and can add further expense.

Reach Increased Transparency of Cash Flow and Automation Rates of Up To 99%

There are a number of benefits that automation brings to an organization, not the least of which is creating fast and efficient invoice closings, saving time and costs. Serrala cash application software for SAP solution achieves automation rates of up to 99%, reduces unallocated cash by 90+ % and provides up to 100% transparency by monitoring important KPIs. This enables companies with greater flexibility to meet changing customer needs and shifting industry dictates.

Automation opens the door to whatever payment method your customers want to use without concern over matching processes. And when matching and reconciliation runs smoothly, a business can reduce unallocated cash and update customer accounts first thing in the morning. Accurate real-time financial data is then available for utilization within the business. Automation also supports AR teams with accurate information, less paperwork and a seamless payment process.

How Underutilizing Automation Prevents Profitability

Automation is adaptive in nature, so when automation systems are underperforming it can be measured, a root cause can be determined, and program adaptations can be made. Advanced technology can meet those requirements, often creating customized, customer-specific intricacies. This then enables organizations to achieve greater automation effectiveness or "auto hit" rates, one of three primary KPIs for automation.

Apart from the mainstay markers of timeliness and accuracy, the everyday value of a company's cash application process can be viewed in hit rates based on online payments applied automatically as a percentage of the total payments received.

It is important to emphasize that utilizing automation for a portion of cash application does not mean the entire process is thereby automated. Some companies choose to automate only one type of payment and maintain that their achieved hit rate cannot be improved; comprehensive solutions that take the entire process of cash application into consideration can correct this approach. The key is in selecting the right vendor.

Equally essential is reviewing current processes to identify existing resource handling exceptions. Automating cash application solutions provides multiple opportunities to address and correct underperforming practices, optimize productivity, and reduce costs.

Overcoming Automation Obstacles

If the reasons to maximize automation are so apparent, why do many organizations struggle to take the steps towards achieving higher levels of process automation? With focused evaluation and adoption of best practices, it is possible to overcome the following pain points:

Limited tech:
SAP can provide basic functionality for processing EBS and can be enhanced with specific solutions that build on it to deliver better automatic matching rates.

Diverse payment instruments:
Peak cash app automation performance is subject to the number of payment tools a company's customers use.

Diverse banking formats:
Bank statements, remittance advices, etc., come in a variety of formats requiring processing by the company's IT system which may not be equipped to handle the necessary formats, requiring conversion into standardized formats.

IT-plus support:
Achieving greater levels of process automation is dependent upon internal support from key IT stakeholders.

Transparency:
One of the biggest pain points since many companies do not track their automation rates nor the manner in which payments are actually being processed.

How Workflows Work to Heighten Cash App Automation

There is a unique mutuality at work within cash application automation systems between application of intelligent workflows and the enhancement of automation processes. By leveraging intelligent workflows, organizations can further There is a unique mutuality at work within cash application automation systems between application of intelligent workflows and the enhancement of automation processes. By leveraging intelligent workflows, organizations can further streamline the effectiveness of automation in several ways:y

Creating, assigning and managing smart rules.

AR staff can optimize cash app automation by defining and implementing specific conditions, rules and criteria (i.e., customer and invoice data) for cash allocation, automating decision-making, exception handling, and payment allocation. Using advanced matching algorithms and continuous learning, these smart rules facilitate a faster and more precise cash app process. Integration with ERP systems facilitates automated updates and actions while regular monitoring and consistent management ensure continuous optimization.

Smart rules refine the cash application process by reducing manual effort, minimizing errors and upping efficiencies and cash flow management.

Optical Character Recognition.

OCR is an enablement of Robotic Process Automation (RPA) and automates the mining of data from written or printed text like that found in payment documents, such as remittance advice and checks (even those that are handwritten or contain inconsistencies.) A series of customized rules are then applied to the extracted data to determine which invoices should be paid with the payment. These rules can be set up to consider various factors such as payment amounts, payment types, invoice amounts, and due dates.

Fraud detection.

Using intelligent algorithms and data analysis, automation software can flag and identify fraudulent activities and/or suspicious transactions including payments with unusual patterns, inconsistent customer behavior or incompatible invoice details. Proactively recognizing and stopping fraud prevents financial losses and is a critical feature of fully optimized cash application automation systems.

Overcome Inefficient Cash Application Processes by Leveraging Best Practices

Achieving optimum standards of automation is not difficult once the associated pain points are accounted for and an accurate evaluation of current processes occurs, clearing the way for initiation of best practices.

When a clear assessment is made and new goals are established, it's often best to engage external specialists with experience in creating and fulfilling cash application projects with a variety of clients. Professional cash application experts can advise on appropriate levels of automation for a company's situation, and the steps and resources required to secure the best possible automation outcomes.

Ideally, information gathering best practices include flexible solutions and configurable technology to accommodate different formats and payment methods. Tech should adapt to any format in which information may be delivered in order to connect to the company's ERP system. Data should be easy to find, i.e., payment advices in the system, and these should also be linked with the bank statement item. Companies should ensure remittance advice is swiftly documented with IT and processed automatically in order to achieve straight through processing. International companies should select a single, unified solution in lieu of country-specific systems.

Beyond saving countless hours, costs and operational headaches, adopting technology to achieve higher levels of cash application automation can help businesses remain competitive.

Companies can reduce their reconciliation issues and DSO while increasing their customer response time. Automation can also bring wider financial benefits for the order-to-cash cycle; for example, higher levels of automation speed up the dispute process since it is known more readily if a payment cannot be applied. Credit management and invoice management processes can also be improved when cash application is automated.

Elevating automation frees a company to engage in more enterprising pursuits such as product and service offerings, and increases productivity by more fully engaging talented staff that is underutilized with menial tasks. Optimizing automation frees up resources to focus on the vitality of the business and on higher-value activities that can spur sustainable growth.known more readily if a payment cannot be applied. Credit management and invoice management processes can also be improved when cash application is automated.

Industry Benchmarks Spotlight

Best-in-Class Automation

Cash application automation rates differ among industries based on factors such as payment process complexity, transaction volume, payment channels, regulations, legacy systems, organizational readiness, and cost-benefit analysis. Industries with intricate payment processes (healthcare/insurance) have lower automation rates; high transaction volume industries (e-commerce) have higher automation rates; and strictly regulated fields (banking/finance) face more automating challenges.

Cost-benefit analysis is helpful to determine if enhanced automation is feasible. Overall, these factors shape the variation in cash application automation rates across industries.

Best-in-Class Automation Benchmarks Achievable Via Top Automation Vendors

Industry	Current Automation	Best-in-Class Automation
Automotive	45%	92%
Chemical	63%	87%
Facility	75%	92%
FMCG	18%	85%
Gas / Oil	75%	91%
Healthcare	48%	91%
Insurance	46%	98%
Logistics	61%	88%
Manufacturing	37%	94%
Pharma	60%	84%
Real Estate	50%	76%
Retail	43%	97%
Services	67%	97%
Utility	71%	99%

Automation in Action: Case Studies

Understanding the potential value and impact of AR process improvements helps decision-makers arrive at informed choices that will benefit the entire organization. The following customer scenarios make the case for automation investment by illustrating how technology achieves short-and long-term objectives, enabling greater optimization and flexibility, better visibility, and faster response and processing times.

ABB – Synchronized Cash Application

One of the leading international technology companies with over 50 subsidiaries, ABB centralized and harmonized their cash application processing using Serrala's FS² AutoBank solution for their company-wide "Cash Applied Before Breakfast" project.

Key drivers for the project were to increase transparency of cash flow company-wide and to reduce local costs with a solution that was fully embedded within the SAP landscape.

Increased automation rates in some countries from 40% up to 90%; Eliminated printing of bank statements, receipts, and postings; Single touch reporting replaced manual maintenance.

Siemens – Higher Automatic Processing Rates and Better Processes

Siemens is a global technology company focused on industry, infrastructure, transport, and healthcare. The company has numerous SAP and non-SAP systems, deployed by over 600 affiliates that are used via different regional shared service centers for receivables management.

Looking to achieve more efficient processes in the receivables and bank statement reconciliation in their financial shared service centers, Serrala's SAP-integrated software solution for Cash Application FS² AutoBank was utilized, helping the company to achieve greater automation of the processing steps for bank statements, remittance advices and lockbox data.

Medtronic – Intelligent Solutions to Achieve Top Automation Rates

Medtronic is a medical device company that develops and manufactures devices and therapies to treat chronic diseases. With 90,000-plus employees in over 150 countries, and over 800,000 quarterly bank transactions (across 250-plus entities and 4 regions), the med-tech leader sought to improve its global process efficiency, controls and centralization.

The company was able to achieve top automation rates in two value streams, invoice-to-cash (cash application) and record-to-report (cash accounting) with the implementation of the fully SAP-embedded Serrala solution FS² AutoBank.

Maintaining a healthy cash flow is essential for vital business operations, reinvestment opportunities and business growth. Automated AR solutions present an efficient and benefits-rich opportunity to leverage automation technology to ensure robust cash flow while advancing other finance functions such as lowering costs, enabling growth and increasing worker's efficiency.

For more information on how automation can maximize profits, minimize costs, and significantly enhance the overall cash application process download the Serrala white paper, "5 reasons why automation is always a good investment: Spotlight on Cash Application."

About Serrala

Serrala is a global financial automation and B2B payments software company creating more secure payment capabilities worldwide for enterprises of all sizes. We are a leading fintech pushing the boundaries of finance software by integrating finance and treasury into one central ecosystem for corporate payments.

Offering truly differentiated on-premise, cloud and SaaS solutions, Serrala enables the Digital Office of the CFO where all financial processes and payments are automated, and optimized. Our customers save costs, minimize risks and gain real-time insights into their world of payments. We are the only provider offering a seamlessly integrated solution portfolio to manage all inbound and outbound payments, treasury processes as well as related data and documents in any IT landscape.

Today, Serrala is a fast-growing company with offices in North America, Europe, Asia and the Middle East and over 700 employees. Serrala drives innovation for more than 2,800 customers including more than 100 of the S&P500 companies.

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