

OVERCOMING CRITICAL AR CHALLENGES FOR SMALL AND MEDIUM BUSINESSES

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Report Highlights

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45% of those surveyed view improvements in cash flow and forecasting guidance as the top priority.

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48% of all respondents are investing in automation of AR processes to relieve departmental stress.

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SMB Leaders are 24% more likely to be able to extract details from printed documents for AR processing.

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SMB Leaders were found to be 54% more likely to automate postings to general ledger.

It comes as little surprise that the pressures and priorities of larger companies differ from those of Small and Medium Size Businesses (SMBs). In this report we will review accounts receivable pressures and challenges faced by SMBs, and highlight the capabilities found in top AR solutions that can alleviate them.

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SMB Definition

We define SMB as exhibiting either of the following characteristics (or both):

Annual revenue < \$1 Billion

FTE headcount < 1000 people

SMBs vs. Large Businesses: Same Planet, Different Worlds

One universal similarity between companies, big or small, is that they rely on revenue from customers to thrive. The primary difference is that SMBs typically have fewer financial and employee resources. This means they also have less ability to absorb delays in collecting payments. SMBs must stretch every dollar to the fullest, and accounts receivable processing delays or credit risks can have serious ramifications, jeopardizing a small or medium size business' livelihood.

In this report, we'll address challenges faced by SMBs and their respective accounts receivable teams to highlight capabilities and solutions which can help overcome these challenges.

Diagnosing SMB Burdens

There are numerous challenges that more directly affect SMBs, especially business on the smaller end, who are generally more affected by policy and market fluctuations. For example, regulatory changes, such as adjustments to health care laws, changes in fed sentiment resulting in interest rate changes, or changes to the minimum wage can have a serious impact on SMBs' profit margins.

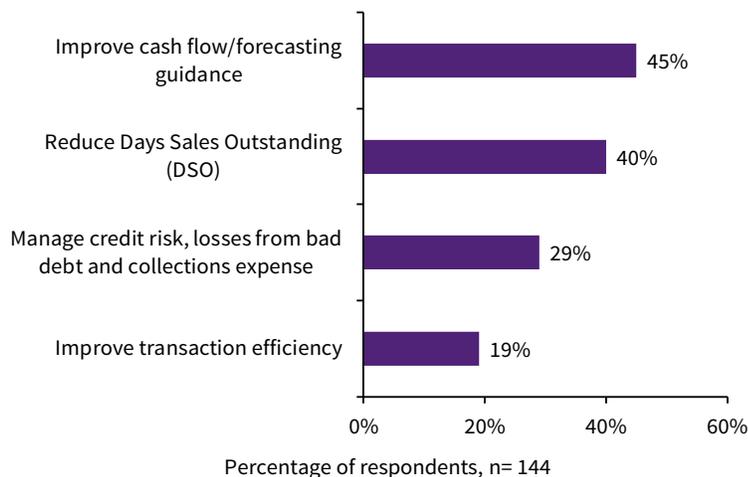
Thinner margins due to increased operating costs is just one threat to profits. Between economic uncertainties and finance operations obstacles, cash flow forecasting was cited as a top pressure by 45% of survey respondents working in AR (see Figure 1). While cash flow guidance affects future business decisions, other obstacles around profits exist, such as delinquent payments. Securing and bringing in revenue is a core competency of accounts receivables. It is therefore no surprise that reducing Days Sales Outstanding (DSO) is an equally high

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priority with 40% of all AR respondents recognizing this as a top pressure.

Unrecovered revenue and bad debts also adversely affect cash flow (as well as income projections). With fewer resources to recoup delayed or missing revenue or to cover debt loss, mitigating risk is critical. Managing exposure to credit risk and bad debt was identified by almost 30% of all respondents as a top pressure. Such impediments can result in SMBs taking unfavorable steps, such as forcing pre-payment requirements that may drive customers to the competition.

Figure 1: Top AR Pressures Across All Respondents



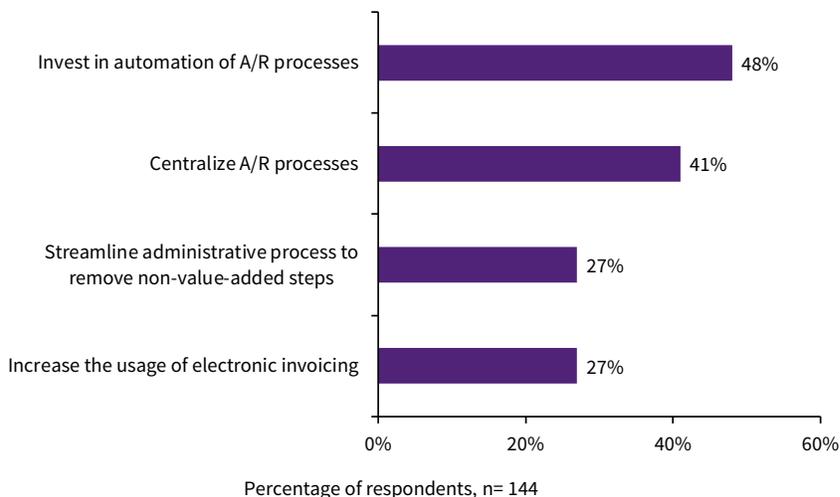
AR Approaches to Easing the Pains

We've seen some AR-related challenges faced by SMBs. Now let's look at some of the strategic actions used to relieve those pains. As we see in Figure 2, the strategic focus falls on improving AR

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processing. The top four strategies geared toward this improve efficiency, and the leading strategy aims to accomplishing this via automation. Of all surveyed AR respondents, 48% identified the latter as a critical response to existing pressures. Centralizing AR processes ties in tightly with AR automation as it minimizes redundancies and filters all efforts into one, easily accessible – ideally, automated – platform. Forty-one percent of all AR respondents recognized this as a critical strategy.

Figure 2: Strategic Actions for Achieving AR Goals



Streamlining the process is essentially the end result of automation, as is increasing usage of electronic invoicing (minimizing manual intervention). Twenty-seven percent of our respondents indicated that they were pursuing these actions. When viewed collectively, we can see that increased efficiencies and smoother processes via automation is ultimately the goal.

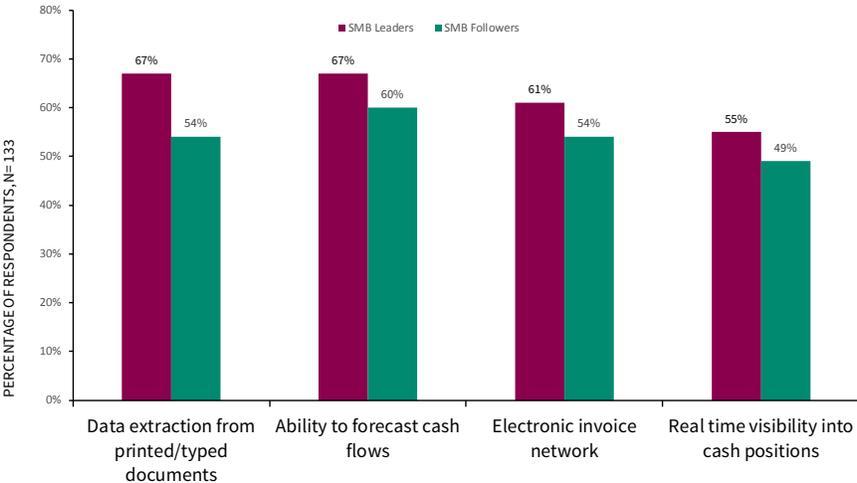
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Contrasting Capabilities Between SMB Leaders and Followers

We've identified the strategies AR departments employ, now it's time to review the precise capabilities found in AR solutions that help these strategies come to fruition. In doing do, we'll compare the likelihood and propensities for SMB Leaders to employ such capabilities compared to SMB Followers (see sidebar for maturity class details designating SMB Leaders and Followers).

SMB companies and organizations know there are strong benefits to information gleaned from AR-related data. Extracting this data from the invoices, via automation, is the first step. Data from paper-based invoices is digitally captured/extracted and can then be disseminated across relevant enterprise-wide systems. SMB Leaders are 24% more likely to be able to extract details from printed documents (see Figure 3).

Figure 3: AP Capabilities Enjoyed by SMB Organizations



SOURCE: ABERDEEN GROUP 2015

SMB Leaders are 24% more likely to be able to extract details from printed documents

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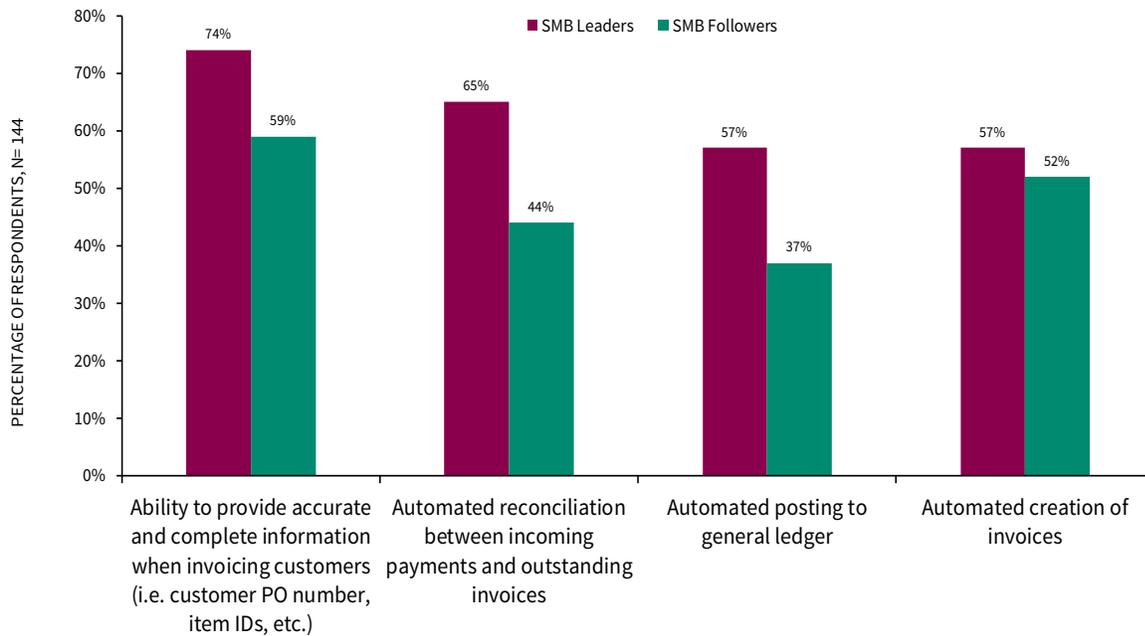
Once the AR data is captured, analytics are updated. This helps provide greater insight into other finance-based tasks, such as cash flow projections. SMB Leaders are 12% more likely to have the capability to forecast cash flows, which you will recall, was a top pressure. The other capabilities highlighted in Figure 3 clearly help finance along these lines as well.

Drilling down further, we will lastly review the capabilities that AR departments seek. Again, these promote the strategic actions being taken to relieve the pressures we've touched on. As we see in Figure 4, many of these capabilities improve accounting efficiencies and help cultivate further insights for cash flow projections. For example, SMB Leaders were found to be 54% more likely to automate postings to general ledger. They were also found to be 48% more likely to automate reconciliation between incoming payments and outstanding invoices.

This not only helps cash flow guidance but also helps to monitor and track DSO. Even though the spread between Leaders and Followers in creating automated invoices is relatively small, at 10%, this is still relevant data because it highlights the almost universal appreciation of automating this essential AR process.

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Figure 4: Features Employed by AR Departments



SOURCE: ABERDEEN GROUP 2015

Conclusion

There are distinct challenges to operating as an SMB. If your AR is not as efficient as you'd like and you are seeking cost-saving benefits or have problems managing customer-associated risks or debt recovery, take a holistic look at the direction of your accounts receivables operations and downstream benefits. Ensure that your processes are as automated as possible, operate in a centralized environment, and that your systems exhibit many of the capabilities highlighted within this report. By

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maximizing these capabilities, you can mitigate the risks and take necessary steps towards a more efficient and successful Accounts Receivables system.

For more information on this or other research topics, please visit www.aberdeen.com.

Related Research

[*Discover How AP Solutions Can Improve Supply Chain Relationships*](#); July 2016

[*AP Automation Streamlines Collaboration, Increases Efficiency*](#); February 2016

[*Reap the Benefits of Invoice Excellence with AP Automation*](#); February 2016

[*Set the Trend; Mobile Offerings in AP Invoice Management*](#); January 2016

[*Bring Invoice Processing Costs Back to Earth with AP Automation in the Cloud*](#); December 2015

[*Pave the Path to Improved Supplier Relationships with AP Automation*](#); November 2015

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