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Is Your AR Workflow Holding Your Cash Hostage?

7 Methods to Unlock Trapped Cash

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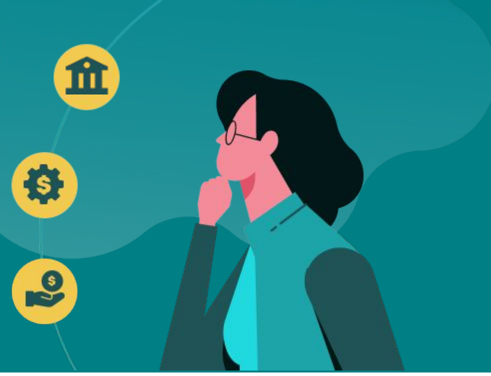
CHAPTER 01

Evaluating Sources of Working Capital in Today’s Market



While external factors such as market conditions may be beyond your control, having a firm grasp on available cash sources empowers your team to weather any financial storm. Today, there are three primary sources of working capital for teams to consider:

01 Equity Capital

Equity capital is the sum of funds generated by a business in exchange for a share of ownership in the company. It is crucial for growth and stability, allowing companies to meet financial needs without debt. While desired, securing equity capital is often challenging, leading businesses to rely on a mix of operational cash and financing.

02 Credit

Credit financing comes in various types, like bank loans, trade credit, and lines of credit. From 2004 to 2019, businesses enjoyed a borrowing boom due to favorable lending conditions. However, inadequate capital buffers and risky investment portfolios have led to recent bank collapses, causing a ripple effect in the financial ecosystem. At the heart of these developments lies an undeniable truth: financing is inherently unpredictable. This lack of control poses a risky proposition for businesses relying solely on credit.

03 Operations

Operations capital, commonly referred to as working capital, is the financial resource used in the day-to-day trading operations of a business. It primarily originates from the business's earnings via accounts receivable, which represents the money owed to a company by its customers. These funds directly contribute to the liquidity and operational funding of a business, enabling it to finance its daily operations more seamlessly.

By mastering these three key areas and implementing effective cash management practices throughout your business, your company can thrive in any economic climate. However, these cash sources aren't all under your control. Equity capital and credit rely on outside organizations, whereas operations capital offers more opportunities to unlock trapped cash. In other words, streamlining operations will help you get paid faster, improve customer relationships, and gain valuable business insights.

CHAPTER 02

Optimizing Your Opportunity and Control within Accounts Receivables

Businesses often follow a predetermined framework for their accounts receivable workflow. However, teams that stick to these traditional methods for familiarity's sake often end up paying a steep price only to compromise their efficiency and effectiveness.

A survey by **Intuit QuickBooks** of 2,000 mid-sized businesses revealed the average business has **$300,000 in outstanding late payments.** By allowing uncollected funds to remain with customers, businesses miss out on valuable opportunities to aid operations, foster expansion efforts, and maintain a healthy financial cushion.

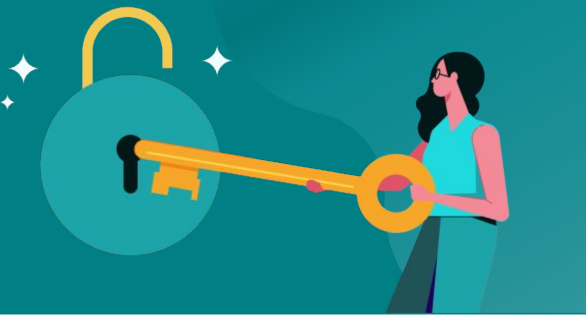
$300,000 **Average amount owed in late payments**

Although the economic benefits are clear, many businesses still struggle to collect outstanding payments, indicating systemic inefficiency. This issue extends beyond delayed payments and highlights the need for a comprehensive overhaul in how businesses manage their receivables.

In the following section, we will share seven tips to revamp your AR function, unlock trapped cash and get control of your working capital.

CHAPTER 03

7 Ways to Unlock and Manage Trapped Cash



Unlocking and then effectively managing trapped cash requires a combination of various techniques and solutions, as there is no single remedy. It's important to note that what may work for one business does not necessarily guarantee the same results for another. However, there are seven promising and effective strategies to recover your due cash and efficiently manage funds without unnecessary strain or waste. This section explores the following strategies in detail.

- **Know and Track Your KPIs**
- **Track Customer Payment Patterns**
- **Optimize Collections**
- **Take Control Over Payment Terms**
- **Automate Payment Reminders**
- **Update Your Cash Forecast**
- **Deliver a 5 Star Payment Experience**

You may have already implemented one or more of these powerful remedies, such as streamlining your invoicing process or implementing automated reminders. However, by strategically leveraging all of these proven techniques, you can supercharge your accounts receivable process. This will enable you to unlock the trapped cash in your business and make significant improvements to your overall approach to accounts receivable. Don't miss out on the opportunity to optimize your cash flow and boost your financial success!

Know and Track Your KPIs 01

Key performance indicators (KPIs) are a window into the health and efficiency of your accounts receivable process. If you accurately track and analyze these metrics, they will provide crucial insights to inform and refine your AR strategy.

If your team is looking to start measuring and improving its AR performance, here are three fundamental KPIs to start tracking:

Days Sales Outstanding (DSO)

This metric reflects the average number of days it takes for your business to collect payments post-sale. A lower DSO typically indicates faster payment collection, while a higher DSO can signify potential inefficiencies or extended credit terms.

The Turnover Ratio

This ratio measures how many times a company turns receivables into cash over a specific period. This indicates the efficiency of your credit and collection processes: a higher ratio typically suggests effective credit granting and efficient collections, whereas a lower ratio can indicate potential challenges in these areas.

The Collections Effectiveness Index (CEI)

CEI also dives into the effectiveness of your collection efforts. By comparing the amount of receivables at the beginning of a period with the amount still owed at the end, CEI measures the success of your collections.

To truly understand the efficacy and performance of your collections process, it's crucial to monitor the above metrics over a sustained period. Doing so will reveal trends, areas of improvement, potential bottlenecks, and the effectiveness of your collections strategy.

Take Control Over Payment Terms 02

Many companies follow a standardized procedure of setting payment terms, slapping them on their invoices, and promptly sending them to customers. But this approach falls short in maximizing collections efficiency. Collections is not just about sending invoices; it involves understanding your client base, analyzing the larger payment dynamics, and taking control where possible.

While negotiating or ensuring timely payments from larger clients can be challenging, there are also instances where your business holds substantial leverage due to the unique value of your offerings or a long-standing relationship. In these scenarios, it is essential for your company to assert its influence and ensure timely payments.

Depending on your specific goals, there are several strategies you can use to take control over payment terms. For example, offering early pay discounts or enforcing late payment fees are two powerful tools to accelerate payment timelines and minimize overdue payments with clients.

By recognizing when to push and when to exercise restraint, businesses can strike a balance that ensures smooth cash flow while maintaining healthy client relationships.

Deliver a 5-Star Payment Experience 03

Facilitating a seamless payment experience is no longer sufficient; it must be exceptional. If your current customer payment process is lackluster, customers may resort to their own, often flawed, accounts payable methods. Conversely, a straightforward, user-friendly, and positive payment process increases the likelihood of customer adoption.

To expedite payment processing, accounts receivable should provide clients with a customer-facing payment portal. This self-service billing portal should accept various payment methods and display all relevant payment history (including paid and unpaid invoices) to ensure the utmost convenience for customers. The interface should be user-friendly and intuitive, eliminating any customer confusion or frustration when determining payment obligations.

By streamlining the payment process, accounts receivable teams can further strengthen their customer relationships and get paid faster. Not able to implement a customer portal at this point? That's ok, you can still improve pieces of the customer experience by communicating clearly with customers and promptly answering customer inquiries and disputes.

Track Customer Payment Patterns 04

You can unlock detailed insights about your clients by tracking their payment patterns: learn which clients consistently honor payment deadlines, which ones tend to pay late, and which ones fall somewhere in the middle. By categorizing customers based on their historical payment behaviors, your team can better strategize a collections approach and maximize its effectiveness.

But the truth is, for companies with a vast clientele, manually tracking these patterns is near impossible. As a result, most teams today use AI and machine learning solutions to automatically track and predict customer payment behavior.

For example, Centime taps into advanced AI to analyze your customers' payment behaviors over time. The system doesn't just take note of who paid late; it dives deeper, examining patterns to predict which customers are likely to delay payment in the future and estimate the expected delay timeline.

Whether it's a week, a month, or even longer, having this granular data helps businesses factor expected delays into financial projections, strategize accordingly, and initiate proactive communication with clients.

By equipping your team with detailed foresight, solutions like Centime empower your finance team to be proactive rather than reactive. Such anticipatory measures can make a significant difference in managing company finances and fostering better client relationships.

Automate Payment Reminders 05

Oftentimes, payment delays result from internal customer problems that are out of your control. For instance, if an essential employee leaves or changes roles, tasks such as invoice payments may get sidelined, especially if the newcomers or those taking over are overwhelmed with catching up on responsibilities. The absence of key individuals, like invoice approvers or payment authorizers, can also affect the payment cycle. Whether they're enjoying vacation, taking a leave of absence, or attending off-site meetings, these absences may force your customers to put their AP tasks on the back burner.

That said, there are areas of AR that are within your control. First and foremost, timely payment reminders play an essential role in reducing overdue invoices. But this tedious process can quickly overwhelm teams with a long list of customers. Rather than manually sending out emails or making individual phone calls to customers, many top-performing AR teams use digital tools to set up and automate client payment reminders.

Platforms like Centime allow businesses to program payment reminders at specific intervals for different clients. This degree of specificity ensures timely nudges to the client, reminding them of their pending payment obligations. Centime also allows teams to customize the tonality of their reminders.

Optimize Collections 06

While technology has automated many business functions, some parts of collections still require manual intervention. This is for a good reason: collections is a sensitive area that sometimes needs a human touch. Automated emails, SMS notifications, and reminders can prompt customers to make payments, but they aren't always effective. Sometimes a real-time conversation can be more persuasive and provide context to understand late payments. It also provides a better opportunity to negotiate payment plans, obtain commitments, or discuss alternatives with your customer.

However, the traditional phone call approach is inefficient and time-consuming. In fact, surveys indicate that, on average, businesses spend **14 hours per week** completing administrative tasks related to collecting payments.

To optimize collections, we recommend relying on a digital platform to view and record all customer payment interactions. Accessing these notes and a customer's complete payment history empowers your AR team with deeper insights and valuable context for future interactions. For instance, if a customer has a history of delayed payments but consistently fulfills their obligations, your team can approach the conversation with understanding and patience.

While automation and digitization are the future, there are instances when manual interventions become necessary. Digital AR platforms can bridge the gap between the traditional and the modern, allowing businesses to harness the benefits of both worlds.

Update Your Cash Forecast 07

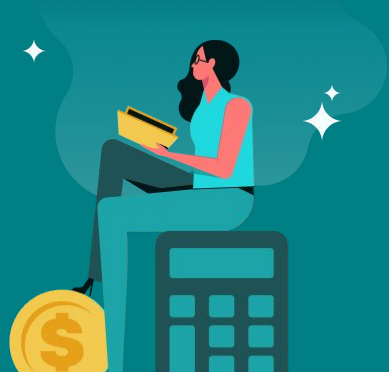
Cash forecasting is a crucial tool to map your company's financial trajectory. By analyzing past trends, current situations, and potential future events, cash forecasting provides a clearer picture of inflows and outflows. This process ensures that financial events don't catch you off guard, enabling you to meet commitments and strategize for growth.

However, one often underestimated aspect that directly impacts cash inflows is the accounts receivable (AR) function. Teams that overlook AR in cash forecasting often suffer from discrepancies between their projected and actual cash positions.

To enhance the accuracy of your forecast, synchronize your AR function with the forecasting process and keep it updated. By considering variables such as delayed or partial payments, your team can improve the quality of its projections and better predict shortfalls or excesses. This connection facilitates informed decision-making and leads to better financial outcomes.

CHAPTER 04

Sharing Success: Accounts Receivable Case Study



Addressing the challenges associated with accounts receivable (AR) management is no walk in the park. Those who deal directly with receivables understand this reality all too well. While many teams become resigned to their AR process, top-performing AR departments proactively reshape their workflow to claim the cash they're due. The following case study shares how one forward-thinking AR department saved its business over $1 million by optimizing its AR processes.

CASE STUDY

Software Business Slashes Outstanding Receivables More than 80% with Centime's AR Automation Solution

The origin story of this software business and its journey to unlock trapped cash is not an uncommon one. Like many firms, they lacked a robust, structured procedure for collecting outstanding payments. But for this organization, it was more than a one-time oversight – their receivables swelled to a staggering $2,000,000.

Manual AR methods hindered their process, creating multiple bottlenecks that made it nearly impossible to collect the growing mountain of outstanding customer payments. Looking for a new approach, the software business turned to Centime's AR automation solution for help.

By automating reminders and tracking communication, Centime's platform enabled this accounts receivable team to reduce its outstanding receivables by 85% within two months of integration. The organization's total outstanding receivables reduced from $2 million to a few hundred thousand dollars - showcasing the power of AR automation and its ability to help teams identify and execute quick wins to unlock trapped cash.

CHAPTER 05

Untrap Cash with Centime

The road to optimal cash management is paved with a combination of knowledge, strategy, and diligence. And while external factors like market conditions or economic downturns might be beyond your control, Centime helps businesses optimize their available sources of working capital to unlock trapped cash.

Ready to reduce manual AR work, scale more efficiently and give your customers a better payment experience? **Our advanced AR automation solution** improves collections effectiveness, reduces overdue payments and boosts working capital – all while tracking industry-standard, account-level key performance indicators.

Streamline collections

Schedule individualized payment reminders and automate late payment dunning notices. Optimize your AR workflow to reduce days sales outstanding, and improve your working capital.

Enable fast, safe payments

Present open invoices online with payment options and early payment discounts. Mitigate risk by upgrading your payment processes and tightening internal controls.

Track performance

Monitor payment patterns with our industry-standard KPIs and use the data to optimize payment terms with critical customers and improve decision-making amongst key stakeholders.

Delight customers

Stay on top of every inquiry by documenting customer interactions in a centralized workspace. Improve client relationships by giving them an easy, secure way to pay by ACH or credit card.

Try it free at **Centime.com**

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