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May/June 2023

Keeping an Eye on Working Capital

B2B and Digital Payments Tracker® Series

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Read the previous edition

MAY 2023

B2B and Digital Payments Tracker® Series

What's Inside

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Acknowledgment

The B2B and Digital Payments Tracker® Series is produced in collaboration with American Express, and PYMNTS is grateful for the company's support and insight. PYMNTS retains full editorial control over the following findings, methodology and data analysis.

Need to Know

Cash Flow Digitization's Overwhelmingly Positive Results

The pandemic jump-started many companies' efforts to improve internal financial transparency for working capital, accounts receivable (AR) and accounts payable (AP). The digital revolution is far from over, however. Working capital and credit digitization was cited as creating improvements by 77% of surveyed CFOs, and now 82% of companies have investment plans for working capital and credit technology.

For AR and AP, 75% and 72% of CFOs, respectively, said that technology investments created improvements, compared to only 7.1% and 4.6%, respectively, who said things got worse. Those who eschewed investment have taken notice, with 68% and 64% of firms that did not invest in AP and AR, respectively, planning to do that spending now.

Positive results from digitization investments are helping to fuel further spending on working capital transparency.

42%
Share of all surveyed CFOs who plan to invest in working capital and credit digitization

50%
Share of all surveyed CFOs who plan to invest in AR digitization

52%
Share of all surveyed CFOs who plan to invest in AP digitization

Need to Know

Working capital transparency is driven by pressing needs.

Late payments and cash flow troubles exacerbated by the banking crisis are an international problem. This is driving interest in payments automation as businesses pivot from legacy payments.

About one-fifth of companies around the world reported that payments are now commonly received 90 days or more past due. The United States construction industry alone saw a 53% jump in costs related to delayed payments, from $136 billion in 2021 to $208 billion in 2022.

For subcontractors, 49% of those surveyed reported waiting an average of 30 days for payments from general contractors, and 27% put liens on properties to ensure they were paid for their work. General contractors have been forced to use credit cards and even personal savings to cover their project costs.

Late payments are adding to the costs of doing business, forcing some to rely on credit just to keep working.

49%
Portion of general contractors using credit cards to cover project costs

41%
Portion of general contractors using lines of credit to cover project costs

40%
Portion of general contractors using business savings to cover project costs

28%
Portion of general contractors using personal savings to cover project costs

Need to Know

Innovation can solve payment problems.

The transportation and logistics sector has also been facing payments problems created by slow processes and manual payments, and AP platform innovation is commonly seen as the solution. Eighteen percent of surveyed companies said they have problems with visibility and transparency in their payment processes, and 67% say it is an urgent priority.

Even those that do not see it as a priority are still looking for ways to improve, and 45% of all surveyed companies have plans to innovate their AP platforms within three years, though only 3.9% have started. Companies expect that the improved transparency will lead to faster payments and better vendor relationships.

Logistics and transportation companies looking at AP platform innovation anticipate multiple benefits.

65%
Portion of surveyed companies expecting better visibility and transparency from AP platform improvements

78%
Portion of surveyed companies expecting AP platform improvements to make payments faster

83%
Portion of surveyed companies expecting AP platform improvements to improve vendor relationships

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News and Trends

Inflation Pressures Push SMBs to the Brink

Inflation means not just rising prices but also rising wages, pinching margins ever tighter for many small to mid-sized businesses (SMBs). With average U.S. hourly wages climbing 4.2% year over year in March, small businesses may have to make impossible choices to stay afloat.

Hiring has slowed significantly in industries such as leisure and hospitality, but cutting workers means cutting customer service and growth potential as well. Businesses can eliminate or reduce nonessential costs by automating AR and AP.

News and Trends

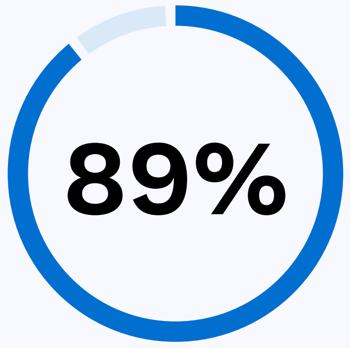
Electronic payables gaining in prominence

Along with greater automation, faster payment processes present another tool for improving cash flow. Eighty-one percent of the 53% of healthcare companies that already support real-time payments plan to continue investments in the technology. Similarly, 53% of finance and insurance businesses are already invested, with 67% saying they will continue to invest.

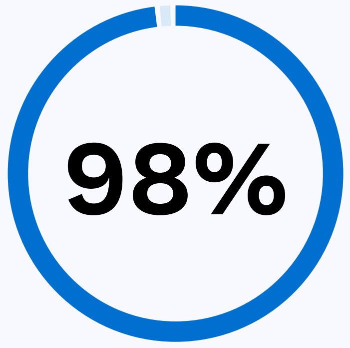
ePayables are becoming an essential AP tool. They employ virtual cards associated with specific suppliers to permit real-time invoice payments. Thirty-seven percent of healthcare, finance and insurance companies already use ePayables to improve AP performance. Out of those that have not already eschewed paper check payments, 92% of healthcare companies and 86% of finance and insurance companies also have plans to spend on the associated technologies.

Saving money with better ERP integration

A recent survey of finance professionals highlights the need for better enterprise resource planning (ERP) systems integration to solve problems with cross-border payments. Survey respondents from businesses already operating globally are waiting 97 days on average to receive payment for purchases made on credit. They also report problems with payments reconciliation and managing refunds and chargebacks. Although the majority agreed that their ERP systems provide the functionality they need, that functionality is not applied equally to domestic and international receivables. Most or nearly all executives felt their businesses could benefit from tighter integration of cross-border payments with their ERP systems.



Share of surveyed finance professionals who say improved ERP integration would save money on cross-border receivables



Share of surveyed finance professionals who say domestic and international payments on a single platform is beneficial

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PYMNTS Intelligence

Eliminating B2B Payments Pain Points

While buyers and suppliers have differing business-to-business (B2B) payments pain points, both could benefit from platforms that improve payments transparency. Forty-seven percent of surveyed SMB suppliers listed a lack of transparency in when payments are received as a top pain point, while 45% of payors pointed to manual reviews holding up the process.

At the same time, 44% of suppliers cited problems with the invoice approval process and 39% said they have had problems with a lack of systems integration. These are exactly the types of problems that can be solved with improvements to ERP systems and greater integration and automation of back-office processes.

The benefits of automation and integration

Particularly for SMBs, stepping up to the next level of B2B payments is essential for staying competitive in a global economy. Payments digitization can improve the speed and convenience of making and receiving payments while also making those transactions more predictable and secure. In addition, using the same system for both domestic and international payments can simplify cash flow tracking and management.

At the same time, companies that have yet to automate payments often underestimate the benefits of greater transparency. While 32% of surveyed software-as-a-service (SaaS) firms that do not yet use enhanced automation in payments anticipate transparency benefits, 49% that are managing non-payroll spending with enhanced automation listed transparency as a top benefit.

PYMNTS Intelligence

More than half of SaaS firms use enhanced spending automation, but top anticipated benefits do not match experience.

32%
Portion of companies without enhanced automation that anticipate transparency will be a top benefit

49%
Portion of companies using enhanced automation that cite transparency as a top benefit

31%
Portion of companies without enhanced automation that anticipate reduced errors will be a top benefit

23%
Portion of companies using enhanced automation that cite reduced errors as a top benefit

On the other hand, ERP automation can be easier said than done. More than half of surveyed retailers have had significant problems in finding reliable ERP systems and getting them set up. On average, respondents experienced delays greater than six months when making major improvements to back-office software, despite many projects already scheduled to take months or years to complete on time. These projects also commonly cost 34% more than initial estimates. It is essential that companies thoroughly understand what they are getting into before starting major ERP system improvements.

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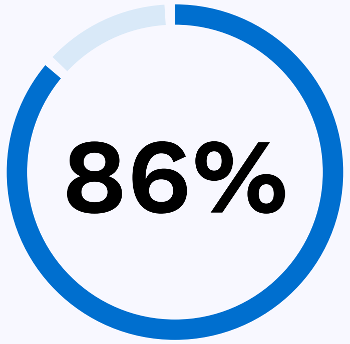
PYMNTS Intelligence

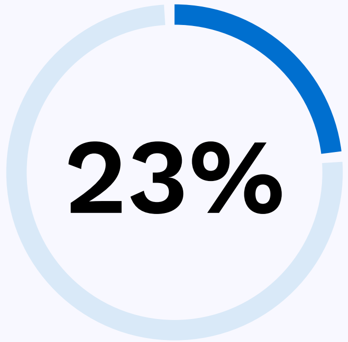
Finding the right solution

Not all ERP systems are created equal. While 86% of surveyed executives said they turn to their ERP systems when looking for real-time data, only 23% are able to get it from their existing software. In fact, 99% of respondents said their ERP systems regularly do not have the information they need to make decisions.

While some users opt to build out additional functionality over time, this is a suboptimal solution. Companies upgrading or implementing new ERP systems need to find software that meets both their current and future needs, with functionality tailored to their industries and sectors. An ERP system should help decision-makers act on the fly, quickly responding and adapting to both challenges and opportunities.



Portion of surveyed executives who use their ERP systems to look for real-time data



Portion of surveyed executives who are able to find the information they need on their ERP systems

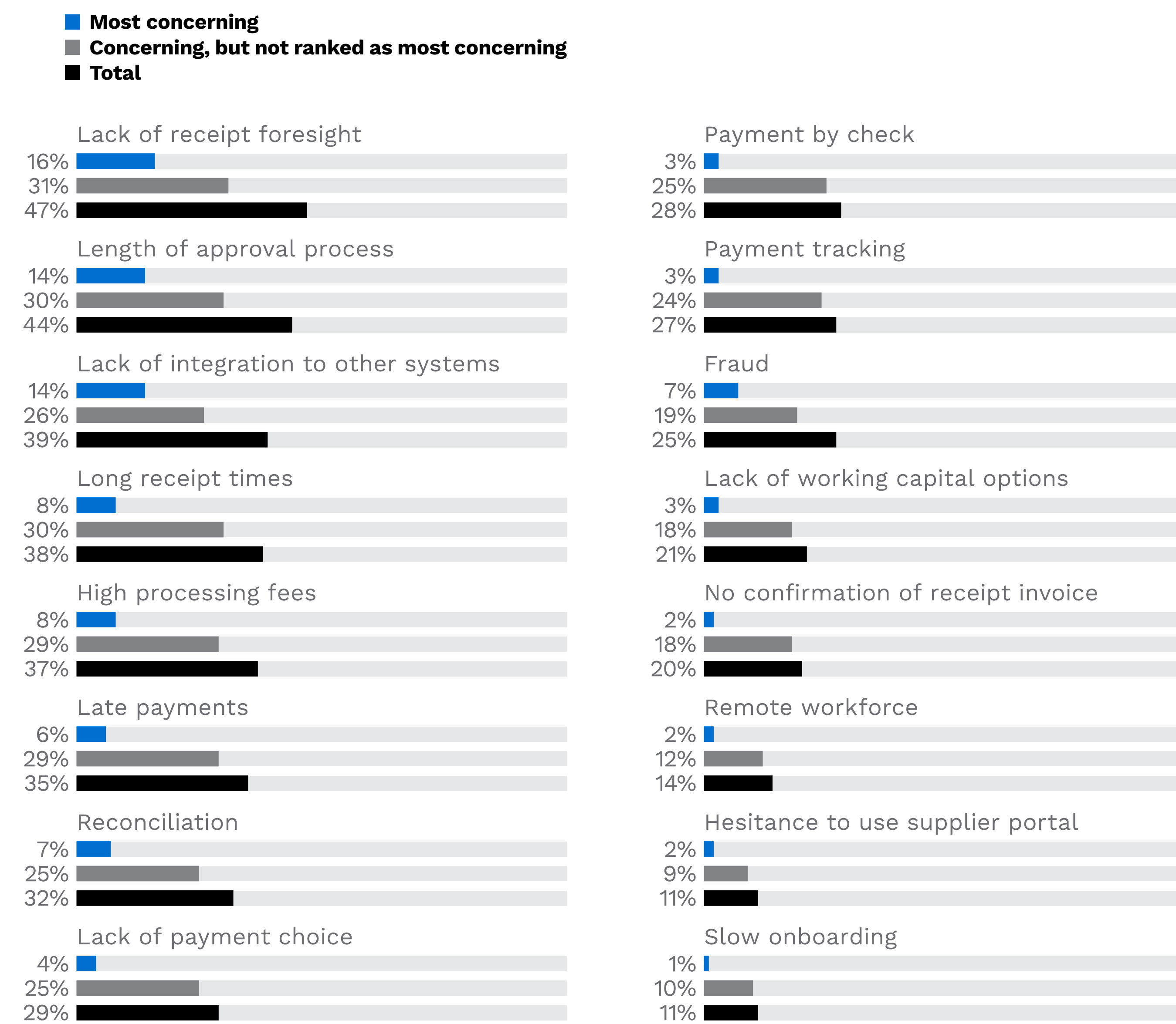
Chart of the Month

SMBs Face Mounting Pressure on Payments

The tight economy has significantly reduced the reach of available working capital, adding to the demand for better transparency in both AR and AP. Forty-seven percent of SMBs are concerned about a lack of receipt foresight when it comes to receiving payments. However, concerns overlap across the entire process, with late payments, reconciliation, lack of integration to other systems and long receipt times all cited as concerns by surveyed SMBs.

Problems SMBs face when receiving B2B payments

Share of SMBs citing select problems they face in receiving payments, by level of concern



Source: PYMNTS

The AP/AR Quick-Start Guide: Reducing B2B Payments Friction for SMBs, August/September 2022

N = 500: Whole sample, fielded Nov. 22, 2021 – Dec. 20, 2021

Insider POV

Minding the Details in Working Capital Transparency

PYMNTS interviews Nathaniel Katz, CFO at eCommerce software provider Rokt, about the importance of shared data and integrations in ensuring that automation tools improve working capital transparency.

NATHANIEL KATZ
CFO

> **"I've always been a big proponent of taking time to diligently work through requirements and do the appropriate testing. I think jamming these systems in often leads to bad outcomes."**

There are plenty of opportunities to use artificial intelligence (AI) in automating the work that CFOs oversee, but a lot of that has not happened yet. The biggest role of automation in company finances is helping to make data more visible to the people who need to see it, Katz said. While there are also applications such as forecasting, in which AI can help to make better sense of the information that is available, where the technology has its greatest potential is in making otherwise opaque data points visible to decision-makers.

Insider POV

The more data a company has and the better it is sharing it, the greater a concern security becomes. In the midst of making data more transparent, businesses need to be just as mindful of not oversharing to the wrong people. As companies' data sets become more useful due to automation and integration, those businesses are not the only ones for whom that information could be useful. The software used and how it is implemented can have a significant impact on how secure a company's data is.

A great product is still only as good as its implementation. Katz said that how well automation software works still depends a lot on the organization deploying it. Simply implementing a system without diligent and deliberate testing can even make the situation worse for working capital transparency. On the other hand, if teams are connected and everyone understands the software, automation can be a significant boon for productivity. Just as with any system, it comes down to ensuring that data is shared rather than siloed and that the people on the ground are invested in and understand the tools they are using.

Better connectivity and integration, such as through out-of-the-box application programming interfaces (APIs), would help with successful automation implementation. Friction is an issue whether dealing with business-to-consumer (B2C), business-to-business (B2B) or even internal data sharing. However, the strides that have been made in reducing friction for B2C transactions have not been seen in other aspects of business digitization. Katz said that B2B companies in particular have a lot of ground to make up in this regard. If companies want to be able to move at speed in the digital age, they will need to focus on reducing or eliminating friction points in their digital implementations at every level.

Legacy systems can create bottlenecks, and even new systems can force information into silos, but the right architecture can help. Katz said he has seen narrow uses of data and lack of information transparency create problems across businesses. One solution is an enterprise data warehouse built on uniform architecture and using a common vernacular throughout the organization. With the ability to access data across a company's internal systems both intelligently and quickly, businesses can unlock a previously unrealized set of possibilities for leveraging data.

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Working capital transparency requires attention to the details.

Data is useful only if the people who need it can see it.

The best automation is only as good as its worst implementation.

Enterprise data needs common access and a common vernacular.

Companies to Watch

Working Capital Solutions Take Center Stage

Lockstep recently improved the payments integration of its connected accounting network. Users will now be able to accept online payments through the Lockstep Self-Service portal from PayPal, Stripe and other payment processors.

TanServ has launched an AR SaaS solution to help businesses of all sizes better manage B2B receivables. The software has ready-to-use, industry-tailored and fully customizable versions meant to meet the needs of differing sizes of companies.

Novo is piloting a program to assist small business owners in need of working capital. Businesses will have access to cash advances of up to $50,000, and Novo has already advanced more than $20 million under the program.

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What's Next

AR Automation Market to Reach $6.5B by 2027

With more companies seeking to get a handle on such areas as credit evaluation and management and cash application automation, AI and machine learning will continue to be growth areas for accounting software. The AR automation market is expected to experience a compound annual growth rate of just over 14%. By 2027, the global AR automation market could be worth $6.5 billion as a result.

"The need for working capital has increased with inflation and rapidly rising interest rates. We know that many companies are exploring new tools and solutions to improve their back-office processes to preserve working capital and save time. In a recent survey conducted by American Express, we heard that 79% of B2B buyers who use a credit card to make company purchases agree that their company uses credit cards as a working capital tool. Digitizing and automating both AP and AR processes can give companies much greater control and insight in the management of their cash flow." *

PAVAN KRISHNA
Vice President, B2B Products and Partnerships at
AMERICAN EXPRESS

* This poll was commissioned by American Express and conducted by Morning Consult from Nov. 17-26, 2022, among 1,000 B2B buyers. B2B buyers are defined as adults having a manager level role or higher within a company with at least 11 employees and using a credit card in their role to purchase goods/services from other businesses on behalf of that company.

About

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