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Improving Cash Flow and Service through e-Invoicing: Part 1

Avoiding delays and late payments when invoicing customers, and improving customer experience at the same time

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Introduction

Whether determining the ongoing health of a business, or positioning it for sale, free cash flow (FCF), which we define here as is the cash left over after a company pays for its operating expenses and capital expenditures, is a critical component for creating value and close to every CFO's heart.

Consider the old adage "Turnover is Vanity, Profit is Sanity, Cash Flow is Reality". Think of companies that make a loss year-after-year like Uber or Tesla, yet somehow keep on going. While investors are willing to take a gamble on future earnings, thousands of other businesses are not so lucky. For the rest of us, the bottom-line is, when you run out of cash and you're out of the game. Free cash flow is the single most relevant indicator that a company is healthy and growing.

"Turnover is Vanity, Profit is Sanity, Cash Flow is Reality"

Yet one of the biggest factors influencing free cash flow is one many organizations often don't consider - poor invoicing. Establishing proper invoicing processes and procedures is essential for encouraging prompt payment and bringing cash into the business. Many business often lack efficiency in their invoicing processes by still relying on staff dedicated to manage paper invoices. It begs the question, in this internet enabled world, why are many businesses so slow to modernize these processes internally?

Moreover, the process of billing is one of the most frequently ignored touch points to customers. Ensuring a positive user-friendly experience with customers can be a huge boost to enabling improved collections and improving your overall brand perception. In this regard, can the goal of improving customer experience work hand-in-hand with a goal drive to digitize invoicing processes and systems?

It is already happening.

To explore this notion further, part 1 of this two-part series will take a brief look at the market factors driving the digitization of invoicing by appraising the options open to businesses for moving to electronic invoicing to improve free cash flow, while understanding its importance for improving customer experience. Part 2 will take an evidenced based look at the realization of

'e-Invoicing' through real customer use cases and the real benefits derived from it.

The Importance of Free Cash Flow

As most business leaders know, free cash flow (FCF) is one of the most important metrics to determine the health of a business. Because FCF accounts for changes in working capital, it can provide critical insights into how an organization operates by demonstrating the shifts in both accounts payable and accounts receivable.

If a company's sales are struggling, they may extend payment terms to their clients where accounts receivable will rise and can account for a negative adjustment to FCF. Similarly, if the company holds on to payables longer, an opposite effect may happen accounting for temporary rise in FCF. This constant rise and fall in FCF needs to be managed to obtain a clear picture on the liquidity of the business.

Thus, anything that can be done to improve cash flow will improve the health of a business and can be seen as a strategic advantage in an increasingly competitive global economy. The inverse of this statement is worth a moment's consideration too. How would your business cope with reduced cash flow? What aspects of the business would feel this first, and how do you militate against this?

AR's impact on Improving Free Cash Flow

Based on the FCF example above, the accounts receivable (AR) department is where a significant percentage (if not the highest percentage) of the cash flow may reside for any business. This then becomes an obvious place to address free cash flow challenges which becomes more apparent when looking at factors negatively impacting cash flow.

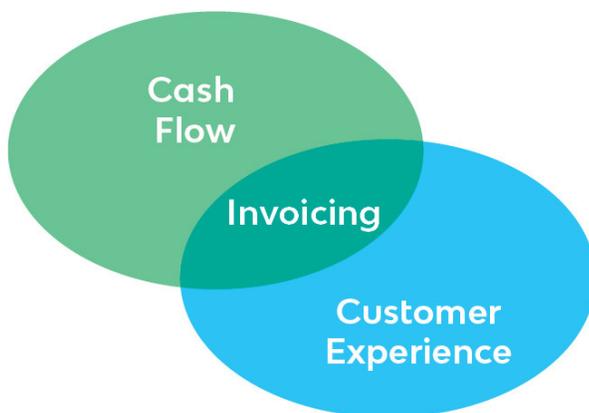
Typical reasons for late payment from customers often come from the 'bureaucratic payment systems' that lack of human interaction. Delays in billing due to inaccuracies in billing statements such as sending an invoice to the wrong person or even worse a wrong address are not obvious if a digital invoice audit trail is lacking.

Where businesses are able to free up resource time to focus on the quality of invoicing and exception handling, rather than laborious and repetitive invoicing processes, the impact could be significant.

in terms of time spend fixing mistakes or dealing with customer disputes. In any business large or small, steps should be taken to automate and streamline processes across the majority of business functions. Yet, for some reason, many businesses often lag in changing their billing and invoicing practices. Why?

Perhaps there is a mindset that improving a back-office function like billing and AR is not strategic. Or perhaps the sensitive nature of the credit control process seems too delicate to change for some – “if it ain’t broke, don’t fix it” mindset? Thus it seems strange while businesses are investing heavily in technology for areas like HR, finance, marketing or sales, many are companies are still stuck with 19th century practices of licking, stuffing, and sending their invoices by snail mail.

Regardless of reason, late payments due to bad invoicing practices are costly. One study shows that the cost for small and mid-sized businesses of an estimated \$3 trillion annually.¹ To quote another study of more than 3,000 SMBs across 11 countries, 1 in 10 invoices are paid late, and up to 10% of payments are either never paid or written off as bad debt. In the U.S., the results also paint a clear picture of the impact of late payments on businesses where over 30% of SMBs currently experience or expect to experience negative impacts of late payments that affect company investments, supplier and staff pay.² Most pertinent here is what can be done to remedy late payment. In the same study, 10% of late payments are written off as bad debt and 13% of invoice payments to SMBs are made late.



Another study from Forbes takes a customer friendly approach by advising businesses to not delay sending invoices to clients, but to make it easy for them to pay by setting up automatic payments electronically or via credit card.³ While there may be an internal implication that slow-paying customers are effectively using sellers to fund their own operations, perhaps the problem is not the customer, but the customer experience related to the invoicing process itself.

Importance of Customer Experience

In the digital age we live in, we know that customer experience today includes not only the complete set of interactions a customer has with a company, but also their perceptions of those interactions.

Gartner defines the idea of customer experience management (CEM) as the collection of processes used to track and organize every interaction between a customer and an organization throughout the customer lifecycle.⁴

The goal of CEM is to optimize those interactions from your customer’s perspective and, in turn, to foster customer loyalty. In increasingly competitive markets, CEM is an extremely significant concept where on the one hand, it enables companies to win business from competitors and, on the other, it is invaluable to prevent churn (loss of customers).

As B2B market leaders simplify, extend, and create a more customer/client-centric approach to services, it becomes increasingly important to provide open lines of communication with customers to ensure their expectations are being met. These CEM processes have traditionally emphasized investing in technologies that improve first-touch areas of customer experience such as marketing, sales, support, and the wider communications lifecycle. Meanwhile, back-office functions like invoicing that are one of the most frequent customer touch points often demand more innovative strategies and a little love to enable a more ‘customer centric’ service mentality.

AR departments are often the most frequent customer interaction points of any part of a business, and notably one where the business has complete control over the customer experience, there is a unique opportunity in meeting or exceeding customer expectations, in terms of the billing / invoicing process.

Moreover, B2C examples such as Amazon, Uber, Netflix (and other household names) exemplify the success in back-office functions by delivering CEM approaches with billing simplicity, depth, and quality of digital experiences that push their brands to follow suit, or risk competitive erosion. B2B companies that can demonstrate a commitment to their customers by improving customer service in billing will continuously improve the customer experience and build competitive advantage.

So for organizations that have kept manual outdated processes in invoicing, there is a clear channel to improve customer experience. Furthermore, the capacity to improve the response to paying invoices and aiding swifter collection of monies also improves free cash flow.

This is where electronic invoicing or e-Invoicing comes in.

How e-Invoicing improves both FCF + customer experience

As the objectives for improved free cash flow and customer experience converge on the invoicing space, driving the need for paradigm change, electronic invoicing needs to be appraised as a solution front and center.

Sending invoices electronically offers a wide range of benefits, stemming from the efficiency and visibility of electronic processes that creates an audit trail which ensures everyone involved (customers and the AR team) are informed. Moreover, AR can now more easily [manage key financial metrics](#) and details around the billing process such as DSO, Average Days Delinquent, Collective Effectiveness Index or AR Turnover.

e-Invoicing can be competitive advantage, facilitating automation of invoicing processes and exception handling, as well as creating a more direct integration with customers' payment systems where possible.

So what are the benefits of e-invoicing? Below is a concise list of the feature benefits for your consideration:

- **Improved Cash Flow:** Collecting money fast is always a major competitive edge. e-invoicing enables faster payments, less hassle and less delinquency. Businesses who use e-invoicing report faster payment of invoices, resulting in greater working capital and free cash flow; enabling business growth and increased financial stability.
- **Easier Access:** E-invoicing, associated financial documents such as remittance advices, purchase orders or additional business documents such as change notifications, can be stored securely online via web portal. This provides easy access for customers to fulfil their own copy requests – reducing call volumes in to customer services teams and enabling a customer self-service approach. Online storage also aids internal document searching, retrieval and performance analytics.
- **Better Working:** E-invoicing creates better financial efficiency, through invoicing simplicity. Automate repetitive manual processes, and free up accounts receivable teams to focus on more profitable activities. Businesses are consequently able to make more efficient use of employees' time.
- **Control:** Implementing e-Invoicing, results in real-time visibility of invoicing status – including delivery and read notifications. Improved visibility provides insight that can be acted on, to support credit controllers in reducing late-payments and disputes. Integration of e-Invoicing with credit collection software allows for seamless and secure access to sensitive documents, and messaging workflows, to expedite credit collection.
- **Auditing:** E-invoicing can be used to achieve VAT compliance through digital signatures and online record keeping. Using an administration console simplifies searching and analysing electronic invoice files, making auditing easier and lower cost.
- **Compliance:** E-invoicing has grown fastest in regions where government mandates require its adoption for VAT compliance. For example, over 90% of invoices sent in Brazil are electronic format. EU directives and B2G invoicing requirements in Europe are ushering in e-invoicing over the next two years. Which will result in rapid adoption of e-invoicing even outside of B2G circles.
- **Cost Savings:** E-invoicing is reputed to save approximately €6.60³ (\$7.16) per invoice sent. This huge cost saving is mainly due to the reduction in postage costs, paper consumption, manual handling of paper invoices and the cost of equipment used in the printing and posting process. Using Corcentric EIPP+, cost savings can be even greater by delivering a unique combination of an innovative technology platform combined with managed services focused on dynamic document creation, multi-channel distribution, and digital invoice transformation.

Based on these benefits, e-Invoicing has grown rapidly in popularity in recent years, with year-on-year growth estimated to be approximately 20% worldwide ⁵. e-Billing, in the broader sense (outside of the B2B space), is also fast becoming the standard approach for customer payments in an increasingly online and digital world – consider how you receive your cable or utility bill today.

One of the most common challenges to deploying e-invoicing is the involvement of the IT department. Unless your business has experience in delivering e-invoicing solutions, it will be more cost effective to consider outsourcing the project to an expert partner. Outsourcing may raise concerns about control and risk, but these are easily answered. The control remains within the business, as you dictate the requirements, and the outsourced partner provides assurances by way of contractual obligations and service level agreements. Yet by delegating the responsibility you're also allowing someone else to take care of

the details and address the risks. Outsourcing allows you to tap into the knowledge, experience and capabilities most suited to successfully realize the task.

As market-leading companies are taking steps to meet this demand for improved billing processes through better personalization, automation, and, ultimately, electronic delivery of invoices – whether connecting via EDI, to an increasing variety of accounts payable systems or networks, emailing invoices, or providing a dedicated portal for customers to access their invoices and associated documents.

Given the numerous benefits of electronic invoicing, this is often seen as a panacea. However, there should be a note of caution when considering customer experience, as no two customers are alike and there may well be a percentage that want or even need to maintain their printed invoices that are received by post.

Moreover, targeting an improved customer experience through better invoicing maps nicely to a need for improved accuracy and efficiency. When connections are put in place to overcome 'bureaucratic payment systems,' delays in payments can be overcome. This is especially crucial in today's conditions. The world's economy has suddenly gone into a deep dive since the start of the COVID-19 crisis and ensuing lockdowns. Businesses around the world are struggling to collect on unpaid invoices. Customers are withholding payments in order to conserve working capital. These businesses in turn pass down the pain to suppliers and vendors by delaying and withholding payments on unpaid invoices.

But late payment of invoices isn't always down to an intentional extension of payment timeframe though; sometimes it's simply a challenge for customers to process invoices quickly enough. Many customers may look for early payment discounts from their suppliers yet will require invoicing simplicity to take advantage of this. Could this be a point of strategic differentiation for your business? Are your competitors enticing customers away with similar offers?

Conclusion

Where businesses are grappling with the opportunity for improved cash flow and improved customer experience, customers needs to be placed at the center of any proposed solution, carefully considering the variety of their needs as a solution is mapped out.

It's one thing knowing that customers are generally keen to receive e-invoices but offering exactly the right format for each customer at any time can make a massive difference to customer experience. Whether it's matching a buyer's obscure requirements or creating clearly-formatted printed invoices for a handful of important customers, there is an opportunity to automate and excel from a customer experience perspective, and deliver the accuracy and immediacy required to shorten payment time and improve free cash flow.

Think long-term: how this makes you 'easy to do business with' and how much more confidence this provides your buyers with, and finally what this says about how you run a company. With e-invoicing you will almost certainly start to see an immediate benefit – shortening payment times, driving down DSO, reducing delinquency, as well as the significant financial upsides to using less paper (expense + environmentally sound) and having your AR department focused on driving more value for the business instead of stuffing and licking envelopes.

Part 2 will cover how leading organizations have dealt with the overcoming the challenges of legacy billing + invoicing and looked to organizations like Corcentric to help guide and implement a solution that implemented the ideals of improved FCF and customer experience using a best in class electronic invoicing solution.

Footnotes

¹ Newsday, *Late Payments cost Small and Mid-Sized Firms \$3 Trillion a Year*, January 2019

² *'The Domino Effect: The Impact of Late Payments'* Study by Sage, Plum Consulting Study of SMBs

³ Forbes: *Three Strategies to Improve Cash Flow for Your Business*, March 2019

⁴ *Gartner IT Glossary*



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Procurement and Finance Solutions

ABOUT CORCENTRIC

Corcentric is a leading provider of procurement and finance solutions that transform how companies purchase, pay, and get paid. Corcentric's procurement, accounts payable, and accounts receivable solutions empower companies to spend smarter, optimize cash flow, and drive profitability. Since 1996, more than 6,000 customers from the middle market to the Fortune 1000 have used Corcentric to unlock new potential within their enterprise. Learn more at corcentric.com or follow Corcentric on LinkedIn at www.linkedin.com/company/corcentric.