What Will the CFO Demand in the Future?

Today's CFO Needs to Drive Transformation and Automate Outdated Processes

By: John McLeod - VersaPay

As originally published in the Credit Research Foundation 2Q 2019 Credit & Financial Management Review

Abstract

In order to succeed today and into the future, CFOs need to demand digital transformation through automation. By starting with accounts receivable, CFOs can implement quickly, generate real results and find the efficiencies required to help shape the overall corporate strategy and direction.

The world is changing fast, and the role of the C-suite executive, especially that of the CFO, is changing with it. Yesterday's CFOs were expected to preserve the assets of the organization by minimizing risk and getting the books right, while running efficient and effective finance operations which include credit and collections, treasury and accounting. In today's digital landscape, where global competition moves at top speed, that is no longer enough.

Beyond getting the books right and running a tight ship, CFOs must now serve as the CEO's right hand, responsible for shaping overall corporate strategy and direction. With visibility into available capital, present and future operating costs, and future revenue streams, input from today's CFO is essential to creating a roadmap for organizations to scale exponentially and with minimal spend.

The reality is, few CFOs have the time required to build a comprehensive business roadmap. With many finance teams relying on dated systems, CFOs are required to spend much of their day managing old, manual, and time-consuming processes. This is why, in PwC's "Dare to Transform" study, an overwhelming 92% of global CFOs surveyed cited improving efficiency and optimizing processes as a key driver for transforming their organization to success. In order to drive efficiencies and optimize processes, CFOs need to demand digital transformation.

What is Digital Transformation?

According to The Enterprisers Project, "digital transformation is the integration of digital technology into all areas of a business resulting in fundamental changes to how businesses operate and how they deliver value to customers. Beyond that, it's a cultural change that requires organizations to continually challenge the status quo, experiment often, and get comfortable with failure. This sometimes means walking away from long-standing business processes that companies were built upon in favor of relatively new practices that are still being defined."

A report from IDC found that wholesale distribution organizations, for example, who use digital technologies – such as robotics, analytics, and Cloud services – can transform their finance processes and help them achieve the following benefits:

- Dramatically reduce costs so that they can better protect margins
- Improve cash flow management
- Optimize working capital
- Boost customer profitability

Caught Between Two Worlds

When an organization's accounting processes are manual and inefficient, collecting and analyzing the financial data necessary to build the business case required to implement new technology is often impossible. How does one find time to research, select and integrate a new technology solution that is required because they don't have time in the first place? When it does happen, and an appropriate business case is made, technology implementations can take years to show ROI, limiting the CFO's ability to finance and approve additional technology spend.

With the ERP sitting at the center of every organization's financial technology stack, it is often identified as a primary area of focus on the digital transformation roadmap. While critical in nature, these installation and upgrade projects are inevitably expensive, complex endeavors that require a significant resource investment from IT and other functional areas to complete.

It's critical that finance leaders understand the limitations of ERP projects:

- They require a great deal of focus, but not so much that no other technology project can be considered.
- Modern ERPs will not solve all of an organization's issues as it relates to process efficiency and optimization.

While today's ERP systems lay the groundwork for many process improvements, no ERP fully addresses the full breadth of transformative need.

Technology: The Big Black Hole

Owning the financial roadmap of a company is a massive responsibility, and while technology should be an enabler, many CFOs view it as a big black hole. There is no handbook for transitioning dated financial practices to a digital environment. CFOs are left with an abundance of questions looming overhead: Can my finance organization handle the change? Do I have the internal skillset I need? How long will it take? How will I answer for dollar spend over the years it takes to implement the new technology?

All of these questions factor into why digital transformation is a key issue for CFOs, yet so many organizations fail to address the challenge. In 2018, PwC surveyed CFOs from 420 global organizations about their priorities for the next five years. Out of those surveyed, only 53% of CFOs said their finance departments were undergoing continuous transformation, 33% said their finance departments were transforming step by step, and 14% of CFOs said their finance departments were transforming of necessity.

CFOs are risk adverse by nature and may not want to make the transformational changes necessary. But not doing anything isn't the safe option. Customers' expectations are changing. The competition is changing. Finance professionals are changing. Smart CFOs realize that to compete in today's digital economy, they must step up their game.

Where to Start

New technologies are abundant. From mobile to Cloud, AI, IoT, RPA and more, deciding where to start is often the biggest hurdle. The advice to CFOs is to start with a technology solution that better arms them for leadership table discussions, enables maximum cost savings, accommodates the changing needs and wants of the customer, or ensures their finance IT infrastructure is safe and secure. Optimizing and standardizing processes through automation is a simple and effective way to achieve those objectives.

Automation is not a silver bullet. Automating an ineffective process won't magically deliver effectiveness. It will deliver the same ineffectiveness, only faster. The key is using automation intelligently by choosing the right areas to automate and implementing technology that automates alongside additional capabilities, such as in-depth reporting and collaboration tools.

Take the invoice to cash cycle. A historically manual, time-intensive and often frustrating process for customers, staff and management alike, when automated, can save an enormous amount of time and money.

Accounts receivable automation streamlines the manual, time-consuming AR processes by automating core elements including invoice presentment, collaboration, collections, payments, cash application and bank reconciliation. It helps organizations get paid faster, which is critical in today's market with the increasing cost of capital. It unlocks money that is tied up in receivables, improves margins, helps CFOs better manage cash flow and ensure that they have the working capital needed to run the business.

What is AR Automation?

"Accounts receivable (AR) automation software helps companies optimize their customer invoicing and payments processes. This type of software is used to streamline the financial transactions between a company and its customers. It is used by accountants and the employees responsible for accounts receivable but can also be used by managers and executives to track the effectiveness of the AR team or department.

AR automation simplifies the processing of large volumes of customer invoices. It can also increase the accuracy of invoicing and payments processes. From a compliance perspective, AR automation provides valuable information for the preparation of regulatory financial reporting." - G2Crowd

Boost Productivity, Gain Deeper Insights

AR automation provides the improved efficiencies today's CFOs need to be able to manage their time and their team. Since customers can log in at any time to view their invoices and payment records, much of the back and forth between the suppliers' AR team and buyers' AP people is eliminated. AR teams won't ever need to resend invoices and supporting documents again, as customers can access this information any time, with just a few clicks or swipes.

With AR automation, notifications can be configured to automatically follow up with thousands of customer contacts. Send automatic notifications when an invoice is due, when it becomes overdue, or when a credit card on file is about to expire, for example.

AR teams can also communicate with customers directly within an AR automation platform on invoices and specific line items. If a customer submits a short payment for an invoice, the technology requires an explanation for why they haven't paid in full. This gives AR and collections teams clarity into payments and reduces the time that they must spend following up with customers.

Automating the AR process allows finance teams to do more with less. Finance leaders can manage a growing number of invoices and an expanding customer base without needing to scale their team. By automating many mundane and tedious tasks, the right AR automation solution makes current employees more productive.

AR automation also reduces the time accounting teams and sales reps spend on collecting overdue invoices. First, by making it easy for customers to pay, the number of invoices that go into overdue status is reduced. Second, items that do go to collections are far easier to manage with automated notifications and real-time insights.

A robust receivables automation platform gives CFOs a real-time view of their outstanding collections. These insights help collectors prioritize their efforts and focus on accounts that require human intervention. With AR automation, collectors can bring in cash faster – helping CFOs to lower bad debt and free up working capital.

Of all of the moving parts of a balance sheet, understanding how much credit risk the company can take on, while still maintaining a healthy profit margin, is one of the CFO's greatest challenges. AR automation solutions collect accurate predictive and prescriptive data on customer payment behaviors, helping to inform which credit risks are worth taking on longer term.

With real-time dashboards and analytics, CFOs gain insights into company-wide or divisional finances. They can even go granular by viewing specific accounts, invoices and line items. Each member of the treasury, accounting and credit/collections teams can quickly find the metrics that they need to be more effective in their role and make smart decisions.

Enhancing the Customer Experience

Anything that touches the customer has a significant impact on the bottom line. AR automation improves the experience provided to customers by giving them on-demand visibility into accounts. Customers can log-in through a customer portal 24/7/365 to view invoices and supporting documents, check the status of a payment, change their preferences, and more.

The online portal allows payments to be made via desktop, smartphones or tablets, meaning customers can pay at any time they want. By offering a range of payment methods, customers can also pay how they want – using credit cards, electronic funds transfers (EFT), ACH debit or checks. This convenience ultimately enhances customers' loyalty and gives them another reason to stay instead of buying from the competition.

The Results

Research from APQC compared organizations that use AR automation with those that do not. The findings revealed that e-invoicing and automation helps top-performers achieve the following:

- An average DSO of 30 days – compared with 55 days for organizations that don't offer customers e-invoices.
- Greater productivity – top performers process almost 2X the number of invoices per full-time equivalent (FTE) as bottom performers.
- Higher levels of employee efficiency – compared with bottom performers, top performers need one less FTE in their AR department per every $1 billion in revenue.

Who Can Companies Trust?

Every AR transaction could expose gaps in an organization's security that open the customer and financial data to hackers. When a security breach happens, and a customer's financial data is compromised, significant damage is done to both the customer relationship and the business' credibility in the market. It doesn't matter if the security breach happens because of hardware failure, software access or human error. Such an occurrence is devastating to an organization's reputation and bottom line.

Human error causes a number of breaches. AR employees may store customer credit card information in an unlocked Excel spreadsheet and then carry it around on their laptop. If the laptop gets stolen, that customer data is at risk. Or an employee may accidentally open a malicious attachment and give a hacker access to their network.

The costs of a data breach are high. According to IBM, the average cost of a data breach is $3.86 million - up year on year. These costs include everything from technical investigations to lost business and brand damage.

Thankfully, there are industry standards in place to ensure a solution provider's credibility - PCI DSS, SOC1 and SOC2 - which make it easier for CFOs to choose the right solution provider. When a Cloud-based accounting solutions provider has all of these designations, CFOs can feel confident in their choice.

Invaluable for Any Stage of Business

Whether stabilizing or growing the finance function, partnering with a reputed accounts receivable automation solutions provider makes sound financial sense. In any stage of growth, an automated invoice-to-cash cycle will help grow the business further. If a company is trying to scale at a rapid pace, the savings and security of automation makes even more sense.

CFOs don't have the time or resources to devote to a lengthy finance transformation project. But digital transformation doesn't need to be lengthy. With the right plan, and the right solution, today's CFO can achieve quick results with minimal risks.

There are the five steps CFOs should take to improve finance efficiencies, deliver a better customer experience and bring in more money – faster:

Step 1, assess the current state. Charting the path for the future starts with understanding where they are now. There are six questions that will help CFOs identify inefficiencies in current AR processes and learn how they are impacting cash flow.

1. How many employees are involved in the collections processes?
2. How much time does AR spend on inefficient tasks?
3. How much does paper mailing cost each month?
4. What is the true cost of DSO?
5. Is factoring invoices being used?
6. What technology does the AR team use?

Step 2, assemble the right team. According to a study by CIO.com, the lack of a strong team can cause digital transformation projects to fail. The top team-related challenges include leadership that isn't committed, resistance to change, and a lack of talent to carry out the transformation.

Step 3, define success metrics. Before implementing an AR automation tool, be clear on the expected ROI. Benchmark metrics before the project and ensure they have the capabilities to track those metrics moving forward.

Step 4, go beyond a payment portal. As the world becomes more digital, many CFOs have considered offering customers a portal where they can pay invoices and check their accounts online. Payment portals are a step in the right direction, but they aren't enough.

Step 5, consolidate AR tools. Centralizing disparate AR tools into one system allows the CFO, the finance team and the rest of the C-suite to quickly find the numbers that they need when they need them.

Competitive advantages don't always come from core competencies. Smart CFOs should look at their back-end processes to give themselves a competitive advantage. Automating the invoice-to-cash cycle is an easy place to start. It has immediate impact and pays dividends as the organization grows.

With the right AR automation solution, large ticket customers become consistent customers and their brand name brings others with them. It's the simplest way to save money fast and keep money long term, equipping the organization to lead and succeed.

Today, and Into the Future

The world is changing fast, and the role of the C-suite executive, especially that of the CFO, is changing with it. In order to succeed today and into the future, CFOs need to demand digital transformation through automation. By starting with accounts receivable, CFOs can implement quickly, generate real results and find the efficiencies required to help shape the overall corporate strategy and direction.

By unlocking lasting efficiencies quickly, organizations can focus on building and implementing a comprehensive business roadmap that should include plans to update all outdated systems and processes. In organizations where the CFO is not stepping up to drive this change, where does the responsibility rest? On the shoulders of the credit and collections, treasury, or accounting team. Not transforming isn't an option.

John McLeod, CMO, joined VersaPay in 2014 and is responsible for creating and delivering the company's brand and marketing strategy. John has been a key member of senior management teams driving growth in both start-up ventures and large technology companies including MetroNet Communications, AT&T Canada and Allstream. John holds a BBA from Wilfrid Laurier University, an MBA from the Ivey School of Business at Western University and a CPA designation.