

# Can A/R Automation Improve My Liquidity?

In a recent KPMG poll, more than 80% of senior financial executives surveyed said that working capital management is one of their highest priorities. As with every economic downturn, liquidity has become more top of mind in the corporate community. Credit markets have either dried up completely or become cost prohibitive to borrow in, forcing companies to focus more attention on improving internal processes, and no process has received more attention than strengthening working capital.

Working capital serves as the measurement of liquidity available for day-to-day operations during the cash conversion cycle and is defined as current assets (accounts receivable, inventory and short-term notes) less current liabilities (accounts payable and short-term debt). The cash conversion cycle is impacted by three processes: receivables, inventory and payables.

Are these three areas for improvement significant to the bottom line?

The answer is yes.

According to Killen Associates, "a typical billion-dollar company spends approximately \$27 million annually for unnecessary working capital and inefficient processing functions because they lack visibility in to the Financial Supply

Chain (FSC) and receivables." Globally, it is estimated that between \$500 billion and \$1 trillion is tied up in working capital worldwide due to the inefficiencies in the FSC.

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Decreasing the amount of time required to collect open receivables is a key priority for companies looking to improve their working capital position. In fact, a recent white paper from Tatum points out five mistakes CFO's need to avoid. Of those mistakes only one is related to process improvement: postponing the collection of cash.

Already operating with lean staffs, many treasurers and A/R managers are seeking new ideas and technologies to improve operational efficiency, especially those that are complementary to their current lockbox and ERP infrastructures.



A November article from the Association of Financial Professionals notes that even though spending has been reduced for most areas, "Spending on technology to improve visibility to cash has not been reduced and, in fact, may be on the increase because of the current economic crisis." To this end, automating the A/R process can significantly improve working capital by:

- Reducing **SG&A expenses** associated with the receivables processing function including bank or in-house keying costs and accelerating cycle time to apply cash at the line-item level
- Increasing earnings by recouping millions of dollars lost annually through the reduction of **invalid deductions** and reducing the burden on personnel to research exceptions
- Increasing confidence in the **Collections** process by providing the most timely and accurate receivables data thereby compressing DSO and elevating customer satisfaction

In any economy, and especially today, the most important commodity is cash and ensuring the accounts receivable process is as efficient as possible is a critical step to improving working capital and liquidity.

Contact OPEN SCAN® today and find out how we can help you reduce costs while improving the efficiency of your receivables process.

[www.openscan.com](http://www.openscan.com)

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*For more information on the sources cited above please visit:*

- [www.kpmg.com](http://www.kpmg.com)
- [www.killen.com](http://www.killen.com)
- [www.tatumllc.com](http://www.tatumllc.com)
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