



Treasury Management
and Payments

WHITE PAPER



INTEGRATED RECEIVABLES: MAKING THE CASE

IN COOPERATION WITH



Receivables have moved up to the forefront of the CFO's agenda. Today, one hears talk of "integrated receivables." Once the red-headed step-child, the Accounts Receivable (A/R) function is warranting significant investment in technology and people to increase revenue, improve efficiency, reduce risk and deliver strategic benefits such as improved visibility, scalability and customer satisfaction. In this white paper, Deluxe, and Novantas, formerly Treasury Strategies, tackle integrated receivables from a Corporate perspective: what are the key benefits to integrating receivable flows and how can one best quantify the benefits.

CURRENT STATE OF CORPORATE RECEIVABLES

Accounts receivable management is one of the most important functions of business operations — it affects both customer satisfaction and revenue. Yet the Billing and A/R functions often remain fragmented and decentralized. Treasury and Accounts Payable (A/P) have largely been centralized over the past 15 years, resulting in clear mandates for process and technology investment. In turn, the Treasury and A/P functions are now largely staffed with knowledge workers — day-to-day activities have been automated, freeing up staff to focus on strategic activities, business line support, and a relatively small number of exceptions.

Is it possible that A/R can be centralized, too — with similar gains in efficiency and strategic insights?

Certainly, the case for integrating A/R has never been stronger. The lack of centralized management of receivables poses several challenges to firms:

- **Efficiency:** Lack of centralization results in manual activities and non-standard practices, in turn producing low straight-through-processing (STP) rates for ingesting, processing and posting collections and associated remittances. Furthermore, the lack of centralized data makes customer service inquiries and error resolution slow, costly and error prone.
- **Risk:** Lack of standardization and automation makes it difficult to validate, log and audit activities. Receivables at risk of credit loss and fraud risk can take longer to identify and be more challenging to resolve due to the inability to quickly obtain and use relevant information. Furthermore, when staff time is consumed with manual operations, little time can be deployed toward oversight and control.
- **Revenue:** Rigorous management of the revenue cycle is only possible with data, analytics and strong governance. It is difficult to manage the complex revenue cycle across fragmented, understaffed teams and functions. Decentralized A/R functions are

often characterized by significant revenue leakage, due to incorrect deductions and sub-optimal follow-up on and resolution of outstanding receivables.

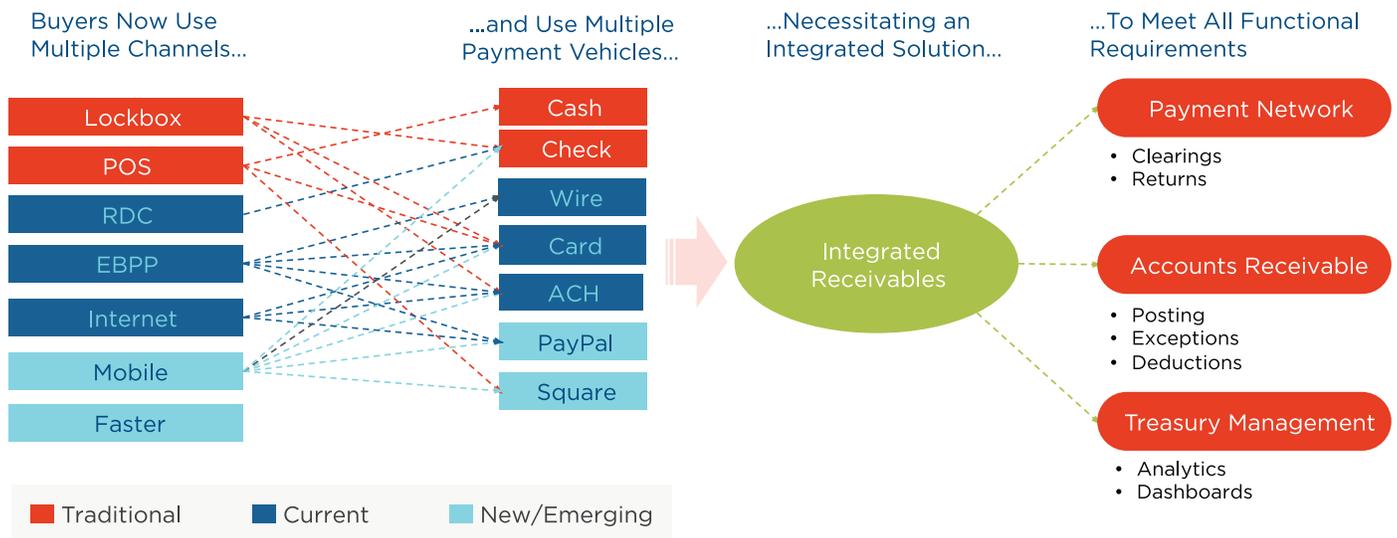
- **Liquidity Management:** Understanding the cash flow of receivables collections is critical to planning and forecasting cash. In the case of a multinational firm, it can also be a critical component to Foreign Exchange (FX) exposure estimation and risk management. Lack of central oversight of collection and lack of good data on collection patterns segmented by product, customer, market, and other parameters impedes the creation of a dynamic, accurate forecast. This, in turn, makes it difficult for Treasury to forecast and plan for working capital shortfalls and surpluses, increasing borrowing costs and reducing investment yield.
- **Customer Satisfaction:** The quality of the billing and paying experience has a major impact on customer relationships. In highly competitive, recurring service fields, competitors can win and lose share of wallet based on how easy they are to purchase from and pay. Many firms expand product lines or execute acquisitions, only to present customers individual bills in multiple media and formats — or are unable to support new billing or payment methods due to limitations in legacy systems. Today, customers — both consumers and businesses — want choices in how they receive and pay bills.
- **Analytics:** Data has become the lifeblood of business. Receivables data is particularly critical to understanding customer behavior, risk and opportunities. Which customers are paying more slowly— is this cause for concern? What is the trend for deduction levels taken for quality reasons? Centralizing receivables data provides a rich pool of insights that can deliver business value across the firm, increasing revenues and delivering customer and market level insights.

TYPICAL CHALLENGES

Technology, such as ERP systems and bespoke tools, has undoubtedly improved the A/R process for corporates – but technology changes, along with other environmental shifts, have also introduced additional complexities:

- **Corporates;** are able to initiate payments using multiple channels, as well as offer a robust set of payment vehicles, making it more difficult to aggregate and normalize payment and associated remittance data into a common data set that supports efficiency and strong governance.
- **FinTech Players;** have emerged, making the competitive landscape more complex and faster-paced by delivering flexible solutions across the entire payments ecosystem. These solutions are often delivered at the corporate’s convenience, and at prices the major players struggle to match.
- **Supply Chain Finance;** is changing the landscape of the corporate payment space for both buyers and suppliers. While buyers look to extend their Days Payables Outstanding (DPO), the suppliers want to reduce their Days Sales Outstanding (DSO); the need for working capital is now greater than ever. Corporations are beginning to think like banks, and in some cases, the ability to finance buyers can mean the difference between making or missing revenue targets.
- **Corporate Mergers and Acquisitions;** have complicated the traditional single Enterprise Resource Platform (ERP) or General Ledger (GL) model; many firms must manage activities across multiple accounting systems.

On top of that, regulatory pressures exacerbate all of the above issues. Publicly held firms must comply with Sarbanes-Oxley and have well-documented, auditable processes with clear and enforced segregation of duties. Corporations face more pressure than ever to have clearly defined processes with appropriate controls and governance, guided by strong data insights to make the most effective use of limited staff time.



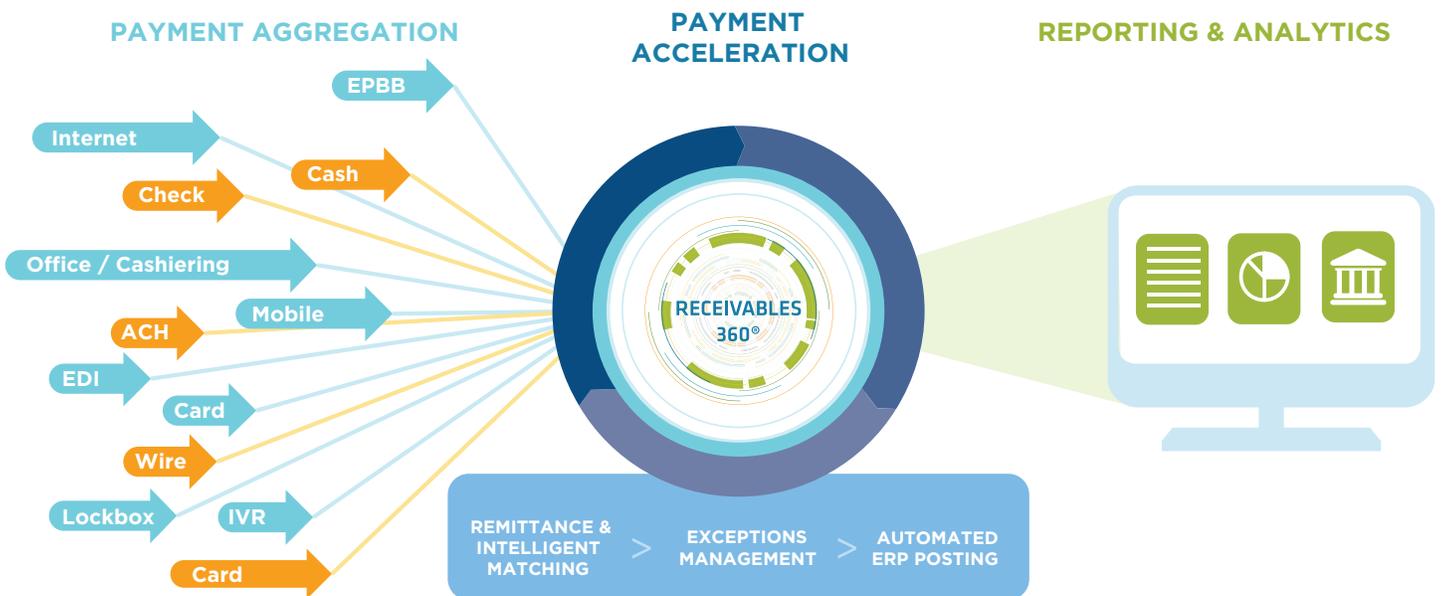
TARGET STATE OF CORPORATE RECEIVABLES

In the same way technology has caused disruption to the traditional payment space, it has also offered opportunities to improve the A/R process. Deluxe is focused on delivering easier integration, smarter payment intelligence analytics and greater payment control to corporate end users through its suite of integrated receivables solutions.

WHAT IS INTEGRATED RECEIVABLES?

AN INTEGRATED APPROACH TO RECEIVABLES INCLUDES:

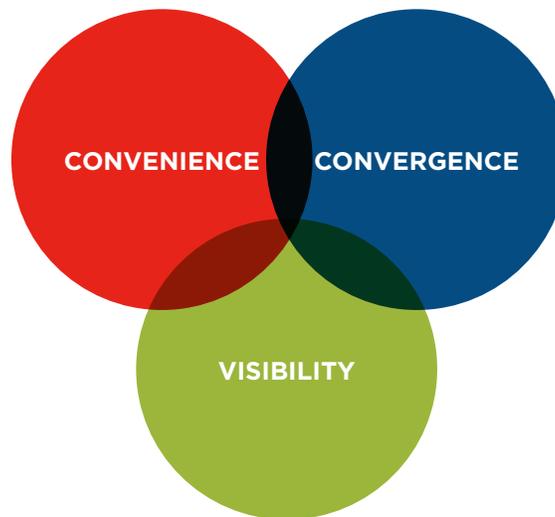
- Single, integrated view of Accounts Receivable and Collection activity
- Enriching of relevant data to maximize the usefulness and comprehensiveness of data
- Normalization of data across multiple channels and payment media to provide a common data set that can be segmented and analyzed across common criteria
- Automation of routine activities through business rules (e.g., matching, exceptions, revenue cycle activities and application)
- Enablement of value-add services through both business rules and intelligent workflow (e.g., dispute resolution, collaboration, revenue and funding optimization)



DELUXE TREASURY INNOVATION PRIORITIES

The Deluxe vision addresses three critical needs for Corporate Receivables: convenience, convergence, and visibility:

- **Convenience** — Companies must provide an easy means for customers to pay in the method of their choice, supporting an ever-increasing number of payment channels.
- **Convergence** — Companies require a robust, central store of data that aggregates information across all payment channels into a single, authentic source that can support automation and intelligence.
- **Visibility** — Companies need access to payment data and associated details to drive informed decisions



PAYMENTS DRIVE LIQUIDITY MANAGEMENT

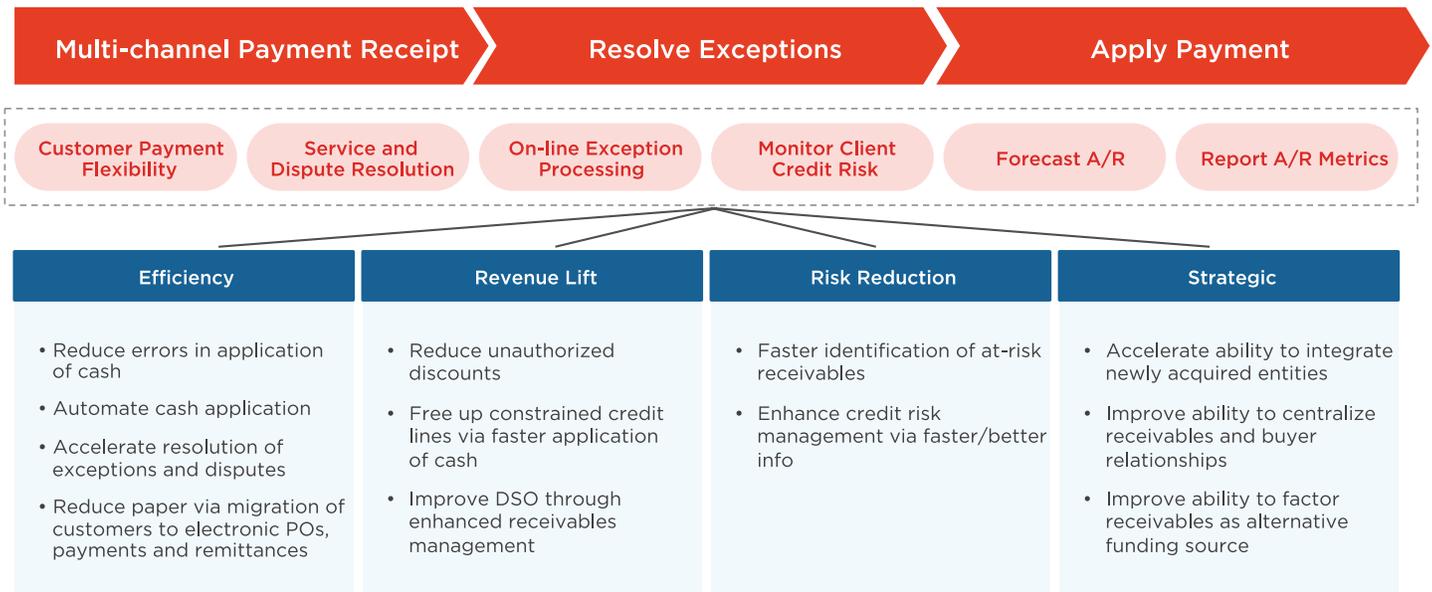
Deluxe views receivables as more than an operational function. Deluxe sees the optimized management of receivables as delivering three pillars of value:

- **Payment Acceleration** improves capture efficiencies across Lockbox, Remote Deposit Capture, Paperless Branches and other channels, speeding access to cash and remittance information.
- **Integrated Receivables Management** streamlines the convergence of most payment types into a single actionable Integrated Receivables Hub, providing a common, rich data set from which to update receivables ledgers and conduct revenue cycle activities.
- **Integrated Liquidity Management** leverages rich receivables information to increase the overall visibility and measurement of liquidity management performance across the working capital cycle.

INTEGRATED RECEIVABLES

At the heart of integrated receivables is a robust decision and processing engine that normalizes payments across payment challenges, applies business rules across all channels and accelerates the posting of payments to the general ledger. This engine also drives opportunities for greater back office efficiency and more timely visibility to payments disposition.

IDENTIFYING THE BENEFITS



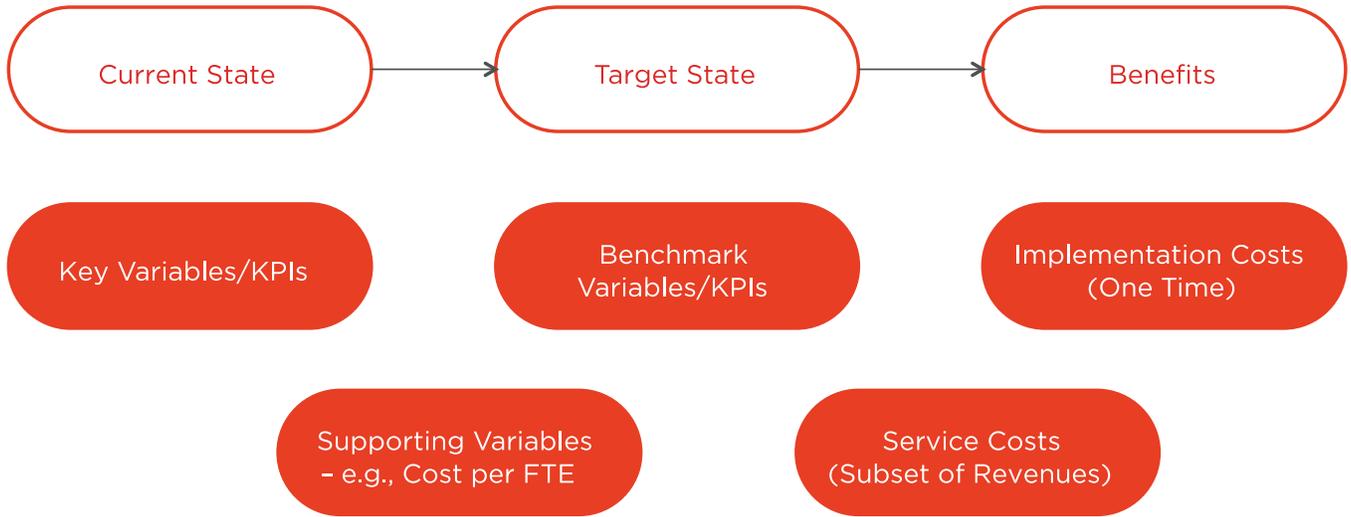
Receivables integration drives value across three pivotal value chains: multi-channel payment receipt, exception resolution and payment application.

- Integrated receivables delivers:
 - Customer Payment Flexibility
 - Service and Dispute Resolution
 - On-line Exception Processing
 - Monitoring of Client Credit Risk
 - Forecasting of A/R
 - Reporting of A/R Metrics
- These services result in greater efficiency by reducing errors during the application of cash, automating the cash application, accelerating the resolution of exceptions and disputes, while reducing paper via migration of customers to electronic POs, payments and remittances.

- There are revenue lift benefits in reducing unauthorized discounts, freeing up constrained credit lines via faster application of cash and improving DSO by enhancing receivables management.
- The concept of risk reduction is realized by creating faster identification of at-risk receivables and enhanced credit risk management via faster/better info.
- Integrated receivables create strategic benefits by accelerating integration of newly-acquired entities, centralizing receivables for greater visibility improving buyer relationships. The greater visibility offers corporations the ability to leverage receivables as an additional source of funding.

MAKING THE CASE: QUANTIFYING THE BENEFITS

DELUXE DIAGNOSTIC MODEL



Based on their work with corporate clients, Deluxe and Novantas have developed a diagnostic model that quantifies the benefits a firm can realize by adopting integrated receivables. These benefits span the end-to-end order-to-cash process, crossing multiple organizational units and expense categories (staff, third party costs, technology). The scope and magnitude of the benefits can sometimes make it a difficult — but worthwhile — challenge to develop the business case.

KEY VARIABLES

The business case includes five major elements:

1. Current state performance
2. Benchmark / Target state performance
3. Implementation Costs
4. Supporting Variables
5. Service Costs

By benchmarking to comparable peers within their industry, corporations can estimate target state KPIs and — by evaluating the improvement in KPIs — the associated benefits of migrating to an integrated receivables solution.

QUANTIFYING EFFICIENCY BENEFITS

Efficiency benefits result from automating manual processes, expediting exception activities and inquiries and migrating to a digital environment, thus eliminating paper. Paper reduction (including postage) is a hard dollar save. Full Time Employee (FTE) saves can be realized via headcount reduction / redeployment, or can be a strategic save, with freed up FTE redeployed for value-added activities such as recovery of revenue leakage and support for firm growth initiatives.

BENEFITS	VALUE EQUATION
Reduce % of collections requiring manual application via improved data quality and matching intelligence	Reduction in manual application X Time for manual application in hours X Hourly cost of FTE
Automate posting of consolidated collection file	Time spent manually consolidating and posting files X Hourly cost of FTE
Reduced customer billing inquiries	Reduction in billing inquiries X Average time required to resolve billing inquiry X Hourly cost of FTE
Faster resolution of billing inquiries via enhanced access to data	Acceleration of time required to resolve billing questions X Remaining number of billing inquiries X Hourly cost of FTE
Reduction in paper POs, remittances, payments	Difference in cost in processing paper vs. electronic document/ payment X Number of documents/payments converted from paper to electronic

QUANTIFYING REVENUE LIFT

Revenue gains are generated by improving revenue realization — i.e., reducing deductions and errors — and by accelerating DSO to either reduce interest expense or increase interest income. In some cases, firms may be losing revenues due to incorrectly constrained credit lines. In such cases, integrated receivables can accelerate the posting process, freeing up credit lines and accelerating revenues.

BENEFITS	VALUE EQUATION
Increased revenues via reduction in incorrect deductions	Cost of incorrect deductions X % reduction in incorrect deductions
Increased revenues via reduced customer attrition due to billing/collection problems	Attrited gross profit due to billing/collection problems X Reduction in attrition
Reduced DSO through more intelligent and responsive collections	Reduction in receivables X Opportunity cost of funds
Increased revenues via freeing up of improperly constrained credit lines	Revenue delays due to improperly constrained credit lines X Reduction in revenue delays

QUANTIFYING RISK REDUCTION

Integrated receivables management provides improved visibility into payment patterns, supporting greater focus and oversight in managing overdue collections — thus reducing bad debt expense.

BENEFITS	VALUE EQUATION
Reduced bad debt expense due to faster and more effective management of at-risk receivables and credit lines	Bad debt expense X Reduction in bad debt expense

BUSINESS CASE EXAMPLES: MAKING THE CASE

Novantas has compiled the following examples across a range of revenue sizes and company types:

FIRM SIZE - ANNUAL REVENUES	INDUSTRY	CHALLENGES
\$25 MM	Clothing Manufacturer	<ul style="list-style-type: none"> • Manual lift from electronic payments with large buyers demanding the use of electronic payment. • Internal staff stretched by manual activities and buyers became aware they could take deductions even with late payments, so illegal deduction flourished. • Company does not have access to material bank credit, so freeing up receivables is valuable to them beyond just the interest earned.
\$250 MM	Electronic Components Manufacturer	<ul style="list-style-type: none"> • Grew through acquisitions and gave autonomy to local sales people. • Receivables operations are fragmented (six different groups) and on different systems (two). • The largest A/R group has a dedicated person overseeing receivables and is very well run, but the other five are sub-scale and so the function is part of a combination accounting, HR administrative, multi-role and things aren't always executed in a disciplined manner. • Migrating to receivables integration, the company now has two dedicated A/R people overseeing all of A/R. • Cash application has improved due to better data lift and matching; illegal deductions have been reduced through more consistent oversight. • The company has also prioritized its collection efforts and follow-up on past due invoices is much more disciplined with dedicated staff. • Expedited DSO is a huge win because company is borrowing at 4.0% to fund inventory and receivables.
\$1 B	IT Services Consulting Firm	<ul style="list-style-type: none"> • Company had a very strong, centralized A/R group, but they struggled to manage incoming data flows — some customers demand to pay with card, others send checks, others pay electronically. • Significant effort explaining the companies billing and responding to customers who put in place deductions based on different interpretations of contract terms or record of hours/project status. Researching short-pays was very time consuming due to billing complexity, so beginning to put structure around the types of short-pays and how to resolve them was a huge win. • Giving the A/R group better, unified data made them more effective and they could prioritize their efforts around control and follow-up issues.

BUSINESS CASE EXAMPLES: MAKING THE CASE (CONTINUED)

CHALLENGES	\$25 MM	\$250 MM	\$1 B
Improvement in DSO	11 Days	7 Days	3 Days
Improvement in Cash Application Rate	78% > 94%	54% > 88%	72% > 92%
Reduction in "Unauthorized" Deduction	2.2% > 0.4%	1.2% > 0.6%	0.8% > 0.4%
Reduction in Bad Debt Expense	0.6% > 0.4%	0.3% > 0.3%	0.4% > 0.3%
Revenue Lift	\$0.5 MM	\$2.0 MM	\$4.0 MM
Efficiency Gain	0.3 MM	1.7 MM	5.4 MM
Total Benefits	0.9 MM	3.7 MM	10.4 MM
ROI	300%	480%	325%

CASE STUDY CONSUMER SERVICES PROVIDER

GOAL:

Improve speed, gain efficiency, and solve for disaster recovery and business continuity for a receivables operation processing millions of payments per month.

CHALLENGE:

This provider had layers of legacy receivables systems at multiple sites. They needed to simplify operations, build in disaster recovery, and reduce payment processing expenses while increasing straight through processing (STP).

SOLUTION:

The firm standardized on Deluxe's Integrated Receivables solution.

IMPACT:.

- 3.65 Days Sales Outstanding (DSO) reduction
- 99% of payments processed the same day they are received
Avoided interruption in service even when a hurricane shut off a processing site.

PROCESSES

99%

of payments the same day they are received

CASE STUDY

BLACK HILLS CORPORATION

GOAL

Power utility serving 763,000+ customers needed to reduce variability in payment processing expense, improve customer service, increase STP.

CHALLENGE

Lockbox fees via their outsourcer were unpredictable and increasing rapidly. At one point, costs doubled year over year. The utility also had poor visibility into its cash position and depended on its outsourcer to resolve customer inquiries.

SOLUTION

Black Hills brought its payment processing in-house with Deluxe's Integrated Receivables solution.

IMPACT

- 43.62 Days Sales Outstanding (DSO) reduction (48.02%)
- 100% of receivables the same day they are received
- Stabilized receivables processing costs
- Improved ability to resolve customer inquiries with instant access to payment images and records

NOW PROCESSES

100%

of receivables the same day they are received

CASE STUDY

MAJOR MIDWEST-BASED LOGISTICS FIRM

GOAL

Eliminate delays in payments posting, reduce banking costs related to receivables and increase labor efficiency.

CHALLENGE

LTL (Less Than Truckload) transportation is a complex industry with unique remittance needs, including dozens of invoicing formats. Organization's existing set-up prevented same-day payment clearing and did not support application of deductions or credits.

SOLUTION

Company partnered with Deluxe to become the first LTL carrier to deploy an Integrated Receivables solution.

IMPACT

- Increased staff productivity by 70%
- Increased daily funds availability
- Saves more than \$500,000 in annual banking fees.

SAVED MORE THAN

\$500_K

in banking fees annually

MAKE YOUR CASE

Gaining improved control, execution and visibility over receivables is critical to your business. Properly managed, the order-to-cash function can maximize revenue and customer satisfaction while enabling you to get the most out of your critical financial staff.



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About Deluxe Financial Services

Deluxe Financial Services is a trusted partner to more than 5,600 financial institutions across North America, including 23 of the top 25 largest treasury management banks. We help our clients succeed in a competitive landscape through a diverse portfolio of best-in-class financial technology solutions. These solutions help clients target, acquire and retain customers; enhance the customer experience; improve efficiency; and optimize commercial and treasury operations.

Industry-leading companies rely on Deluxe Treasury Management and Payments Solutions to accelerate working capital, improve straight through processing, better serve their customers, control costs and drive profitable growth with in-house or outsourced offerings for receivables management, remote capture, and enterprise services.