



How Accounts Receivables Received a Boost with ARDEM

APR 2023
Case Study



The Importance of Accounts Receivables in All Companies

Accounts receivable (AR) is one of the major assets of a company, and its management can make or break a business. It is a vital function in a company because it affects a company's cash flow. Therefore, efficient AR management is crucial for all businesses.

Previous reports show that about 48% of businesses that experience payment delays witness bad debts. 64% of small businesses receive payments late. As a result, 23% refrain from investing in new technology or hiring additional staff. Even 17% get financially stuck building up inventory.

Mismanaged cash flow is the number one risk for small businesses. 80% of businesses shut down because of flaws in the company's cash flow management.

1. AR typically focuses on three areas:

- a. Maximizing Revenue
- b. Minimizing Costs
- c. Improving Customer Relation

To maximize revenue, companies ensure sending invoices promptly and collect payments as soon as possible. Businesses provide credit facilities to customers for easy transaction processes and establish a strong credit relationship with them.

2. An efficient AR function is also crucial considering investors as it provides critical information on outstanding revenue, key customer accounts, etc. Investors gain insights into a company's overall financial stability and liquidity via its AR function and get interested in the company based on the company's sound collection records and high AR efficiency.

3. Mismanaged AR often causes devastating fund shortages. Due to delayed payments from clients, a company may be a few amounts of money away from a cash flow shortage. Eventually, the company will be unable to bear its expenses and pay bills to carry on its business smoothly.

AR involves more than just reminding the clients to pay invoices on time. Companies need to check if there are loopholes in the system or any administrative errors due to which the client has skipped the payment.



What are The Challenges that Company X faced in Achieving accurate AR?

Company X is a well-established company in the intercom systems industry, serving globally. Over the years, the company has faced varied challenges in managing its AR Function. The main challenge they faced in achieving accurate AR was manual processing.

1. Manual Processing

Manual processing is prone to incorrect listing on invoices. AR teams need to send lots of invoices on a daily basis. Therefore, human forces are more likely to input incorrect data, amounts, or invoice numbers, omit discounts, and overlook policies to be legally compliant. These errors were compounded as they served a large clientele base.

Manual processing involved sending invoices to customers via email and waiting to receive payments. It was a time-consuming process that caused delays in receiving payments.

2. Poor Vetting Process for New Clients

When Company X extended credit, they were required to make a careful and critical examination of the client's repayment ability. Failure to properly vet or careful examination resulted in delayed payments or bad debts. Just like accounts payable vendor management in the AP function, the clients' account management is crucial in the accounts receivable function.

3. Inadequate Payment Options

Inadequate payment options also resulted in delayed payments. Difficulty in settling the invoice led to procrastination by the company's clients. They may have prioritized other invoices with less friction.

4. Delayed Due to Errors

Errors in invoices and bills due to manual invoice processing led to delays in receiving payments as it takes time to respond to clients' requests for clarification and apply revisions.

Delayed payments affected the company's cash flow. In turn, they could not invest in their business growth.

5. Inconsistent Invoicing and Collections Processes

Inconsistency was the result of manual processes. The staff might manually prepare and send each invoice to clients manually. Many times, staff forgot to send them, and a few invoices were misplaced.

6. Inadequate Insights

The receivables function of Company X and its clients had minimal visibility into the status of open invoices due to traditional means of communication (email) during the invoicing to cash conversion process. It led to misunderstandings and caused payment disputes.

What are The Overall Solutions and How Does Company X Implement Them?

The most crucial aspect of AR management is ensuring the inflow of money and timely payment from customers. The following are the best practices to sustain receivables and overcome present challenges in the company's AR:

- Timely invoice and follow up on overdue accounts as soon as possible.
- Offering rewards on early payments helps companies to align cash flow by avoiding most late payments.
- If clients tend to run late payments, consider offering discounts on quick payments. Check your profit margins properly while deciding on a discount rate.
- Cash flow results from how quickly a company's cash cycle moves. A systematic collection management process can reduce the DSO (Days Sales Outstanding).
- Providing the electronic payment facility as a payment option can be a great start to encourage the valuable assets of your company - the customers. Newer companies prefer electronic modes for settling invoices. With e-payment modes, companies can make payment more manageable, more accessible, & faster.

- Using analytics generated throughout the AR management to evaluate the creditworthiness of each new customer is inevitable. It is a useful strategy to extend more credit to new customers who match a company's defined criteria.
- Most importantly, keep track of your receivables to keep an eye on clients with regular overdue payments. Recent data shows that 68% had automated or planned to automate their AR reporting.

Company X realized that they need an experienced BPO (Business Process Outsourcing) service provider to maintain all such favorable but time-consuming tasks. Outsourced accounting services cover as explained above and many more strategic activities, like automated invoicing, ensuring effective receivable processing.

To implement the solutions for efficient AR function, Company X partnered with ARDEM, a leading provider of accounts receivable outsourcing services, which helped it to address various challenges.



How ARDEM Resolved The Company's AR Issues

ARDEM worked with Company X and offered an end-to-end accounts receivable solution - customized as per their business needs that ultimately boost receivables efficiency in the company.

Expert AR teams at ARDEM studied the current process and broke it down into individual steps for more valuable insights. Teams optimized each step for efficiency and then implemented it for an efficient workstream.

As the company wanted to automate its entire AR function, from generating invoices to payment receipts, ARDEM automated the function with customized accounts receivable solutions.

This end-to-end AR solution that ARDEM implemented to address the AR related issues in Company X includes the following:

- **Automated Invoice Generation and Delivery:** The automated process for invoice generation resulted in reduced turnaround time for the invoicing process. With an electronic invoice delivery system, invoices were sent directly to the client's inbox to ensure prompt delivery. It positively impacted the efficiency and speed of converting invoices into cash.
- **Electronic Processing for Faster Payments:** With the integrated e-payment processing system streamlined the payment process. Customers were able to make payments directly and quickly. It reduced the time for payments to be received.

- **Reporting:** Company X received real-time reporting that helped it to monitor the status of invoices and payments. With better visibility into the entire order-to-cash process, the company could make informed decisions based on real-time data and optimize its cash flow effectively.
- **Reduced Errors and Delays:** Automated processes reduced errors and delays that occurred in manual processing, like data entry, invoice processing, and payment collections.
- **Improved Working Capital:** The time the company's AR was used to receive cash from clients and convert it into working capital was reduced with a shortened cash cycle.
- **Reduced DSO:** With proper credit management and communication with clients, it reduced the average number of days for payment collection after a sale on credit had been made.

The list of AR tasks for Company X included:

- Downloading aging summary
- Sending statements to customers
- Addressing emails
- Sending past due invoices to customers
- Adding notes
- Communicating with customers regarding receivables

The transition period was only a month and the results were tremendous to boost the receivables efficiency as shown below:

Description	Jan 2023	March 2023
Monthly Average Task Processed	225	666
Average Daily Analyst	1	1
Average Accuracy	99%	99.9%
Turnaround (24 Hours)	99%	99%

Conclusion

The present fast-paced business world requires effective business processes to boost efficiency. As a result, many businesses turn to efficient outsourcing companies, like ARDEM, offering automation solutions.

- ARDEM teams can work within the client company's systems, directly following the current processes. Also, depending on the client's needs, set up a more optimized AR function from scratch to handle all invoices and billing 100% on time with assured quality.
- Latest technologies, like RPA (Robotic Process Automation), streamline the methods to collect, process, and report data. Advanced technologies, like machine learning and artificial intelligence, are deployed to transform data entry and validation for high quality assurance.
- Clients can get a qualified team to work within 14 days. ARDEM can scale up its clients' AR teams to match their needs while focusing on scalability and growth. Manage teams from as little as 5 to 25+ team fellows.
- Accounts receivable runs on accurate data. While in-house accounts receivables data entry may have manual errors, ARDEM - an experienced data entry services provider - delivers high-quality data using the best data entry practices. They combine manual and automated data capture for accurate data entry. Experts use a series of validation checks to achieve up to 99.97% accuracy.

ARDEM Incorporated

ARDEM Incorporated delivers success for companies looking to efficiently streamline their processes and improve ROI. We implement the world's most sophisticated Technology platform combining human interaction with advance technologies to automate business processes and lower operational costs.



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888-359-2679 | 908-359-2600



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pricing@ardem.com

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