STRATEGIC TREASURER

2021
TREASURY UPDATE
NEWSLETTER

Paper to Electronic: Accelerated Digitalization

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DIGITALIZATION

Whether we refer to it as digitalization, paper to electronic (P2E), payments modernization or digital transformation, shifting processes from manual to digital is something most firms recognized as a worthwhile goal years ago. In every department from treasury to AP, leveraging technology can dramatically increase efficiency, reduce the ever-growing risk of fraud, free up liquidity and aid in its management, and allow staff to focus on higher level work that drives growth and excellence for the organization at large.

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THE PANDEMIC EFFECT

COVID-19 affected multiple aspects of life and business, dramatically altering the landscape within weeks as it swept the world in 2020. Payment terms were abruptly pushed and pulled as liquidity tightened across supply chains, interest rate and investment strategies saw rapid alterations, multiple industries saw massive revenue drops, and staff across the world were sent home to join the previously small remote workforce.

In response to the COVID-19 pandemic, have you considered the following:
(Select all that apply)

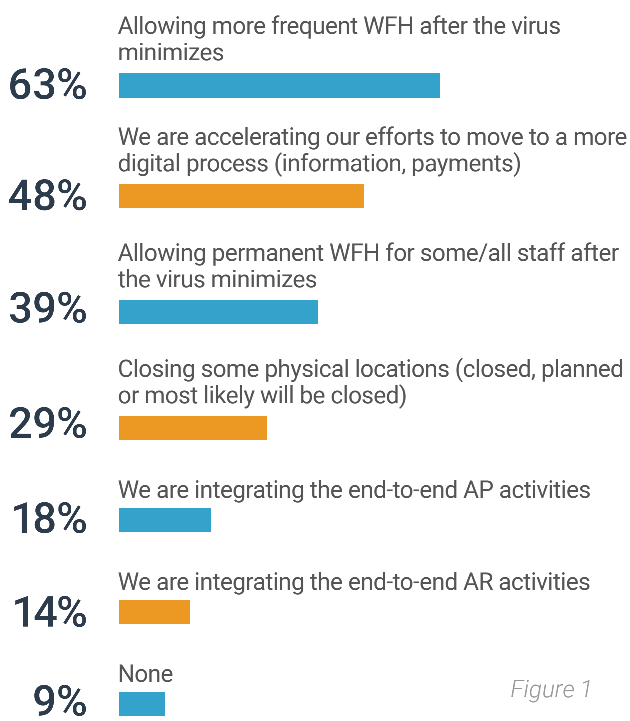

Figure 1

As the corporate world scrambled to adjust to each of these changes, many turned to technology. This widespread adoption accelerated overall digital transformation dramatically, moving the corporate world an estimated 2.5 years ahead in P2E conversion in the course of a single year.

Without reservation, the pandemic has brought upheaval, hardship, grief and trials. That said, in our responses—both personally and professionally—to the challenges of the past year, there have often been areas of growth and progress that can be celebrated. The acceleration of P2E is one of them.

Why was the transition to digital such a vital part of many companies' strategies for surviving 2020? Below are three main areas in which digital processes are helping:

HOW ELECTRONIC PROCESSES IMPACT LIQUIDITY

Liquidity tightened almost universally across industries during the early months of COVID-19's spread, with a number of industries seeing ongoing liquidity strain into 2021. While investing in new technology may not be the most intuitive move to address liquidity problems, digital processes can have a significant positive impact on liquidity for many types of organizations. These impacts can be both direct and indirect.

1. Indirect

The indirect liquidity impacts of electronic processes can be sizable. There are two main ways in which these impacts can come about.

First, digital processes produce better and more accessible information. Using these processes, treasury and finance are able to access more detailed and reliable information more easily and quickly than with paper processes. They have a better grasp sooner as to when they will have access to that cash, as well as when that cash will be required elsewhere. This better understanding allows treasury to manage liquidity far more effectively, leading to more optimized use of debt and investments.

Second, electronic processes reduce defects. Defects, such as erroneous invoices that must be corrected and sent back, thus delaying payment, are doing far more than most realize to tie up liquidity and create unnecessary costs. In turn, reducing these defects with electronic processes lets liquidity flow more freely and minimizes costs.

Firms have seen DSO drop by several days by converting just half of their customer base to ACH payments. With orders placed electronically, both the invoice and payment are sent electronically as well. This results in fewer disruptions and errors on both ends. Without the delays and rework caused by incorrect invoices, firms achieve time savings, working capital benefits, and improved liquidity. This does not even include further improvements for those who can leverage additional liquidity sources that some automation platforms offer, such as reverse factoring or dynamic discounting.

During disruptive and economically difficult times such as we have experienced for the past year, entire supply chains face substantial risk. Electronic payments—done well, with an eye to what partners need—can help all parties maintain adequate liquidity and weather the storm.

2. Direct

The direct liquidity impacts of exchanging manual processes for electronic are found in the efficiency improvements and the cost of transactions. With digital tools handling much of the least skilled portions of the process, staff can make more efficient use of time and accomplish more high-level tasks. In addition to taking advantage of lower-cost options for sending and receiving payments, transactions also take less time to manage, lowering their total cost even more.

DIGITAL FOR WFH & BCP

In terms of operations, electronic processes transition far more easily and safely to remote work.

As so many organizations moved to a work from home (WFH) posture in early 2020, many discovered that their business continuity plans (BCP) were inadequate for the situation they faced. Their manual processes, which before had been merely inefficient, suddenly became completely untenable as employees in different locations attempted to access and collaborate on processes relying on paper, Excel, physical bank tokens and other manual tools.

In addition, security issues cropped up, as 1) many manual controls became unviable and were bypassed, and 2) employees used work computers for personal use or accessed sensitive data from insecure locations and devices. Combined with increased susceptibility to the gamut of scams seeking to convince employees to click a link or change payment information (after all, criminals could make unusually convincing arguments for needing to change payment or contact information in the confusion and sudden move home), the virus provoked a year of heightened fraud concerns and COVID-related losses (*2021 Treasury Fraud & Controls Survey,* Strategic Treasurer and Bottomline).

CORPORATES: Was the fraud you experienced related to COVID-19?

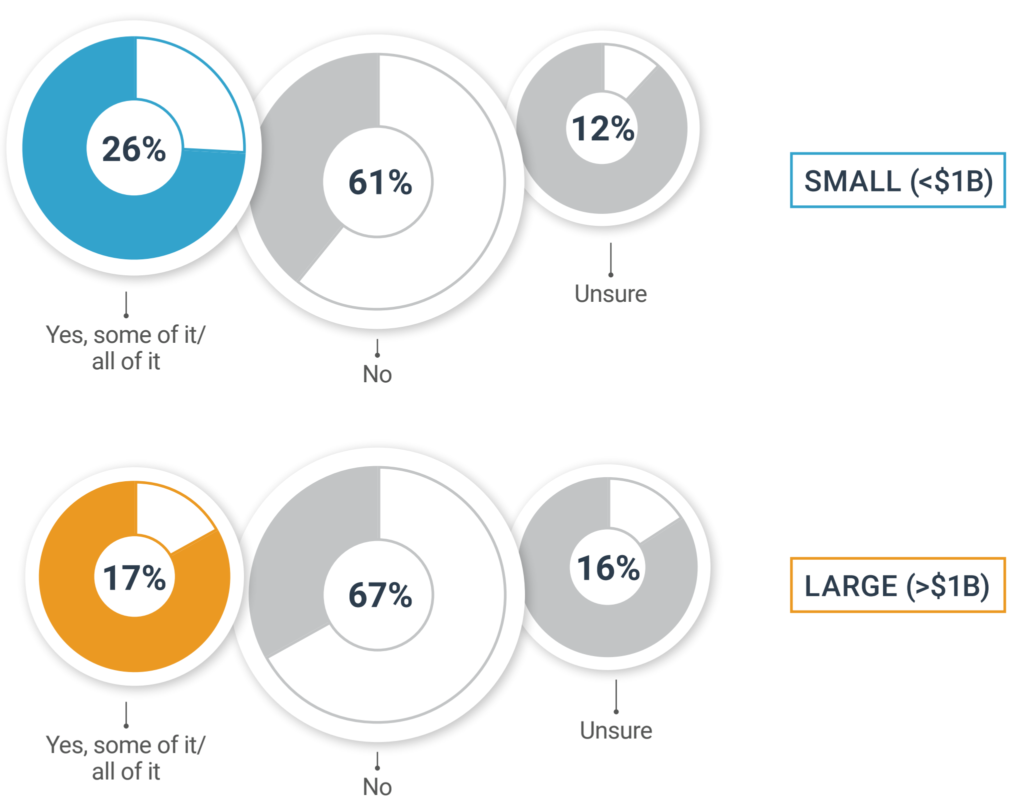

Figure 2

With these and other WFH and BCP concerns, electronic processes changed quickly from something firms hoped to reach in the future to an urgent requirement for continuing operations effectively and securely.

DIGITAL FOR MARGIN & STRATEGIC BANDWIDTH

In addition to the challenges of remote work, the pandemic changed the economic outlook for entire nations and industries. In the face of widespread liquidity concerns and a rapidly shifting landscape, organizations of all types needed to reassess their plans. Treasury and finance professionals required both the bandwidth and the data necessary to advise executives and help strategically steer their organizations through the crisis.

With manual processes, obtaining reliable data (cash positions, forecasts, etc.) in the first place can tie up treasury's bandwidth nearly in its entirety during regular times, not to mention during WFH with rapid changes taking place. Relying instead on technology to help them gain intraday visibility while leaving staff enough margin for strategic and advisory functions allows treasury and finance departments to help their companies stay afloat during trying times.

Final Thoughts

As digital adoption sees widespread acceleration, treasury and finance will benefit from watching developments closely and paying attention to the actions their peers are taking to combat the crisis. Knowing where you stand in relation to similar organizations now and noting as the trends shift can help you gauge the importance of certain actions for your own organization.

SOME EASY WAYS TO LEARN FROM YOUR PEERS AND SEE WHAT OTHERS ARE DOING:

- Join our active *Treasury community* on LinkedIn.
- Read the latest survey reports for developments in areas such as fraud, AP/AR modernization, B2B payments, treasury perspectives, and many more.
- Visit *TreasuryCoalition.com* to download the latest reports from the Global Recovery Monitor, a brief survey run every two months to track the impact and response to COVID-19 within treasury and finance.
- For a more official, deeper dive into seeing your company's position in relation to comparable firms, learn more about *our corporate benchmarking services.*

SOURCES

- **Figure 1:** *2020 Modernizing AP/AR Processing Survey Report*
- **Figure 2:** *2021 Treasury Fraud & Controls Survey Report*

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STRATEGIC TREASURER

ABOUT STRATEGIC TREASURER

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Strategic Treasurer was founded in 2004 by Craig Jeffery, a financial expert and trusted advisor to executive treasury teams since the early 1990s. Partners and associates of Strategic Treasurer span the US, the UK, and continental Europe.

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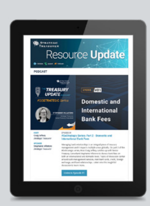

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