Blockchain: A Game-Changer in Accounts Receivable?

This e-book is an actionable summary on how A/R teams in B2B companies could leverage blockchain to transform their business processes

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Integrated Receivables

Table of Contents

Blockchain technology overview

As evident from the name, blockchain is a chain of blocks, where each block consists of transaction data and is connected to its previous block. Blockchain as a technology operates on two fundamental concepts:

Distributed ledger

It is a shared, distributed ledger that facilitates the process of recording transactions and tracking cash flow in a business network. Through this ledger, an immutable record of all transactions is present on the blockchain for all participants to access.

Figure 1: Blockchain stores transaction records in a chain, Source: Blockchain for Dummies, IBM Limited Edition

Smart contracts

It is a set of computer instruction (code) that all the participants must agree. This code acts as a trigger which on successful validation of data, is converted into a block and written into the blockchain.
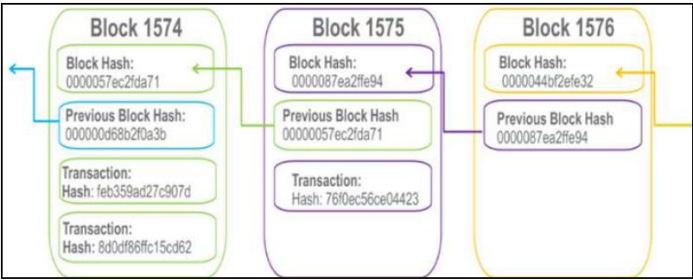
Capabilities

Democratized information
The shared ledger acts as a single source of truth.

High integrity
Recorded transactions cannot be edited.

Real-time
Transaction settlement is reduced from hours to minutes

Blockchain applications in other industries

Supply chain management
One of the characteristics of blockchain is provenance. Provenance allows participants to track the origin of an asset and transfer of ownership over time. In supply chain management the provenance of each component such as manufacturer, production date, batch stored on the blockchain allowing faster drill-down and corrective action for a faulty system.

Insurance
When an insurable event (such as an accident) occurs, the insurance policy is automatically triggered by a smart contract stored on the blockchain, the insurance claim gets processed, and the customer gets paid without any hassle.

Blockchain Opportunities in A/R

Manual Transaction Management

Analysts spend a major chunk of their time doing low-value, manual work such as remittance aggregation, invoice preparation, deduction coding, collaborating with multiple stakeholders.

Analysts end up being clerks instead of doing research

Limited visibility/transparency

Limited visibility = inability to identify areas of improvement

Absence of a single source of truth provides limited managerial visibility. Analysts need to gather data manually from individual processes, resulting in inaccurate, outdated statistics and making it difficult for process owners to adopt process improvements.

Error-prone and sluggish process execution

Dependency on a largely manual-driven process is slow and prone to errors.

Analysts commit mistakes in doing manual work

Limited trust among stakeholders

Suppliers and buyers are not in sync

Due to limited visibility and data stored in disparate sources, there is limited trust between suppliers and buyers. Lack of transparency leads to complicated referral and credit scoring mechanisms, and untimely payment of invoices.

How blockchain fills the gaps in A/R processes

Automated transaction management

Accounts receivable accruals automation
For A/R accruals, following proper accounting standards requires periodic auditing, keeping track of payments received and allocating them in either of receivables, liability or revenue. For tracking hundreds of A/R accruals, the process is time taking, cumbersome and prone to errors.
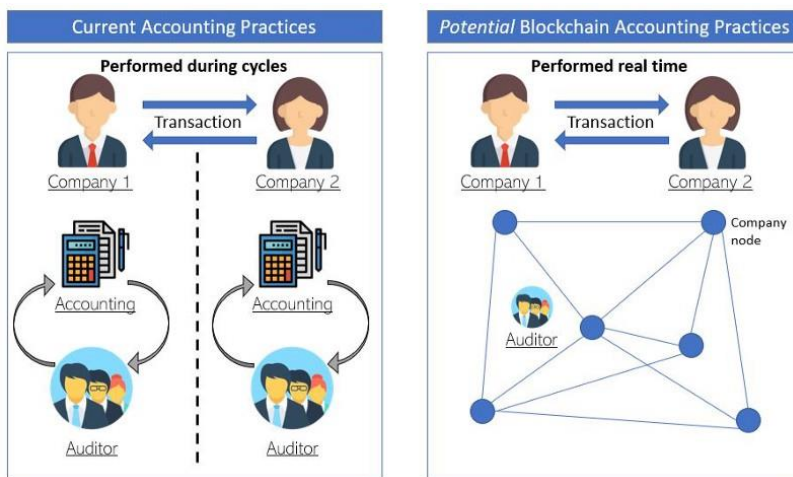

Smart contracts enable real time reconciliation of A/R accruals for both suppliers and buyers by getting triggered at each stage of service completion, eliminating the need for accountants to record individual transactions but rather monitor them.

Figure 2: Blockchain account practices, Source: Blockchain technology and its potential to disrupt accounting, Ian Bond

Real-time visibility for multiple stakeholders

Reducing deductions
Deductions is a common occurrence for CPG, Food & Beverage and Apparel industries arising out of reasons such as discounts, damaged goods, late deliveries. For CPG giants such as Walmart, it results in hard to resolve conflicts with suppliers.

> Chief Product Officer at HighRadius, Sayid Shabeer, explains:
>
> *"Conflict resolution often gets delayed because of restricted access to data owned by different stakeholders. For example, stakeholders from different departments among both suppliers and customers (Walmart), logistics providers, auditors, as well as issues related to traceability of related transactions and documents."*

Blockchain technology provides the much-needed level of transparency required to avoid these conflicts from happening. Or, simply resolve them in an automated manner, without complications.

Shabeer continues, "Walmart could, for example, host a blockchain for trucking companies so that both suppliers and Walmart could use the distributed ledger for reconciliation. The expedited resolution of disputes would benefit both the suppliers and the buyers in relation with AR/AP."

Fast and accurate process execution

Pre-approved transactions for faster procure-to-pay cycle
In current A/R processes, different versions of the same invoice are stored in disparate locations such as supplier's billing system, buyer's accounting system, supplier side e-invoicing provider's database and financial institutions records. Each invoice copy gets modified independently from each other, making it inconsistent with other versions and leading to inefficiencies across the order-to-cash cycle.
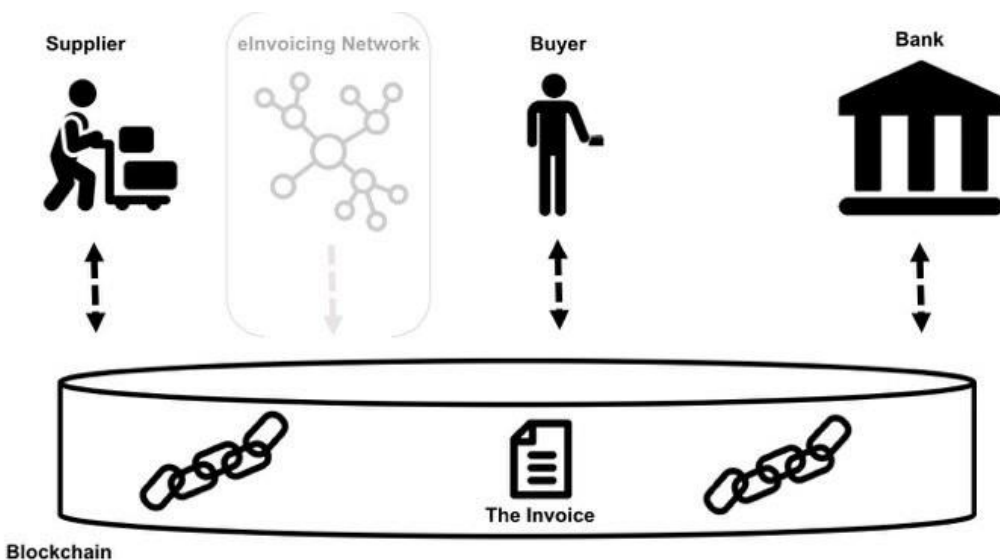

Figure 3: Blockchain as the single source of truth, Source: Blockchain First, Markus Ament

Why is Blockchain Important for Accounts Receivable?

With distributed ledger, every participant has access to a single valid document and use it for further processing in their ERP system. Hence there are no inconsistencies with A/R and A/P. Buyer could also embed remittance details into the blockchain which everyone can access.

Buyer generated purchase order and supplier received sales order is the same blockchain

This eliminates the need to

- generate invoice
- pause for human validation
- approve agreed transactions
- issue remittance
- manually record individual transactions

All this results in accelerated settlements and improved cash flow.

Stakeholders on the same page

Increased trust among stakeholders through centralized credit information accessibility
Blockchain technology would help increase trust among clients and vendors through easy access to buyer credit score across the supplier community based on buyer payment behavior, purchase history, validity of deductions claimed. The accumulated and stored history of transactions would help build trust and transparency among stakeholders.

Distributed credit information accessibility leads to swift distribution of authentication rights

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How to Apply Blockchain in Your A/R System

With the recent hype over multiple use-cases for blockchain, it is difficult for executives to zero-in on a decision. But unless the core transaction management of your A/R processes is streamlined, blockchain will not solve your challenges and will fall short of delivering its promised potential. Before applying blockchain to your A/R processes, there are a few questions that you need to ask yourself.

Are basic manual tasks already automated?
All the manual A/R processes such as chasing transactions, fetching backup documents, preparing invoices, posting cash need to automated by using technology such as RPA and Artificial Intelligence. Technology would be able to mimic analyst activity and free up their bandwidth from doing low-value tasks resulting in speed, cost savings and reduced errors.

Blockchain is NOT automation. AR processes need to have "true" automation in place for blockchain to show results

To realize the speed and transparency benefits of blockchain, your AR processes need to transform from siloed functioning to Integrated Receivables

Do our systems communicate with each other?
To optimize the end-to-end A/R process, efficient data exchange needs to take place between different A/R processes such as deductions, collections, credit, cash application for better transparency. Cloud automation helps to establish a single source of truth for seamless information exchange across processes. This concept is called Integrated Receivables where each process 'communicates' with other A/R processes instead of operating in silos.

What is the ROI?
Before embarking on adopting blockchain for optimizing your A/R process, it is important to balance the benefits of blockchain with the cost of integrating this technology to existing systems such as validation workflows, accounting system and the cost to address cybersecurity. A winning business case should address what will be saved or increased from implementing the system.

Having realistic numbers for before and after is necessary to understand what the system will do for you and from where your savings and optimization will come