

# From Cash Flow Pain to Working Capital Gain: Automated AR/AP Solutions for SMBs

June 2024

Small to mid-sized businesses are experiencing a cash flow crunch. Can digital tools help keep them solvent?



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Small to mid-sized businesses (SMBs) face working capital issues that pose challenges to their operational stability and potential growth. Many SMBs still rely on manual, analog-era cash management tools and processes, concerned that digital alternatives are both costly and overly complex. However, the implementation of digital, automated cash management solutions offers Main Street an opportunity to thrive rather than merely survive in the digital-first economy. Forging partnerships with financial technology providers can be a simplified, cost-effective way for SMBs to reach that goal.

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## Long- vs. Short-Term Gains: The Cash Flow Tug-of-War

Small businesses are often forced to focus on managing cash to survive rather than investing it to thrive.

### Limited cash reserves force SMBs to trade long-term viability for short-term survival.

A troubling 70% of SMBs have only the thinnest of reserves, with less than four months' worth of cash in the bank. With operational expenses consuming more than 90% of revenues, small business owners are left walking a cash flow tightrope that is their only lifeline — not a robust route to long-term viability.

**70%** of SMBs have less than **four months of cash** to cover operating expenses.

Cash flow shortages leave 45% of small business owners in the United States without a paycheck and 22% struggling to cover bills, placing nearly one in five at risk of closing their doors. However, more efficient working capital solutions could go far to shore up their financial resilience.

### SMBs must rethink their cash flow strategies for long-term success.

Cash flow is the oxygen of any business, making accurate financial forecasting and modeling critical to ensure sustainability. A recent PwC survey indicated that 45% of global CEOs believe that a new economic era requires a sharp business-model rethink to optimize cash flow management. For smaller businesses, the need is seen as even more crucial, with 56% of CEOs at firms generating revenues of less than \$100 million foreseeing limited future viability for their firms without a change in working capital strategy.

A recent study by Hackett concurs that an uncertain economic outlook has pushed cost containment and cash flow optimization to the top of the list of business priorities for 2024. As a result, leaders are focusing on digital automation to increase productivity and efficiency.

## Delayed Payments Intensify Challenges

Delayed payments disrupt cash flow, heighten anxiety about continued viability and take money out of business owners' own pockets — yet solutions remain underutilized.

### Small businesses are inundated with unpaid invoices.

**\$9.4B USD**

Estimated value of **overdue invoices** owed to small businesses in the U.K.

Timely payments are the backbone of the economy, but small businesses continue to do battle with late payments. In the United Kingdom, for example, small businesses are owed £7.4 billion (\$9.4 billion USD) in **overdue invoices**. Chasing after payments is a twice-weekly chore on average, with the finance, construction and equipment leasing industries being the latest payers. The **cost of late payments** to small businesses was an estimated £1.6 billion (\$2 billion USD) in 2023 alone, double that of 2021. This figure represents the cost to SMBs of not having access to their unpaid invoice funds and is on top of what they are owed.

### The construction industry is carrying an outsized load of delayed payments.

The construction industry's 2023 ledger revealed a startling trend of payment delays, with 72% of subcontractors reporting waits of more than 30 days to get paid. This marked a leap from just 49% of subcontractors waiting 30 days or more for payments in 2022. The cost of these **delayed payments** was an estimated \$273 billion, representing 14% of overall construction costs. The picture for the heavy-construction **equipment rental market** was especially harsh, with waits stretching past the 90-day mark for nearly 9% of operators. The path forward demands modernized payment solutions and practices.

## Cause vs. Cure: Manual Processes vs. Automation

The cycle of uncertainty and inefficiency for SMBs is largely fueled by the reliance on a multiplicity of manual processes and management tools. Automated and unified digital solutions can simplify working capital management for these businesses.

### Legacy processes undermine confidence in financial data.

Globally, 37% of CFOs view their organizations' **financial data** as unreliable, a sentiment that rises to 50% among senior finance and accounting leaders. This lack of trust owes itself to the potential for errors introduced by outdated processes currently in use and the poor cash flow visibility these systems offer. Doubt about data validity, in turn, muddies the waters of strategic decision-making, impairing agility and the ability to adapt to changing market conditions.

**84%** of mid-sized firms that have **fully automated AR/AP** cite increased savings, cash flow and growth as benefits.

### Perceptions of cost and complexity keep many SMBs tied to antiquated manual processes.

At the root of these cash flow concerns is the fact that a large portion of SMBs are still wrestling with **manual systems** for their accounts receivable (AR) and accounts payable (AP) processes. While more than 60% of firms have initiated some degree of AR/AP automation, just 5% have fully automated these systems, and a surprising 36% of mid-sized firms are still managing AR/AP entirely with manual and paper-based processes.

Many say their reasons for the delay in automating are **cost and complexity**. However, using outdated, less accurate methods not only reduces operational efficiency but also amplifies the risk of errors, diminishing the reliability of financial data and potentially turning accurate cash flow forecasting into more hit-or-miss predictions.

### Automation facilitates better working capital management.

A recent joint study by PYMNTS Intelligence and American Express found that small companies that have automated **AP/AR processes** cite better cash flow management, more efficient and streamlined processes, and better data visibility and insights as the main benefits of these implementations. With 75% of mid-sized firms expecting an increase in the number of **invoices** handled via their AR systems in the next three years, automating their accounting processes is essential to ensuring that they can effectively manage these increases in volume. Ninety-five percent of the companies that have fully automated AP/AR say they have achieved more accurate, efficient or streamlined processes as a result, and 84% cite greater savings, cash flow and growth from automation.

### A single cash management platform saves time and labor.

A plethora of cash flow management tools complicates the process for 60% of small businesses — so much so that they are devoting at least five hours a week just to manage this multiplicity of tools. Another one-fifth experience a 10- to 20-hour time sink on these platforms. **Roughly half** could gain back three to eight hours per week simply by corraling these tools onto a **single platform**.

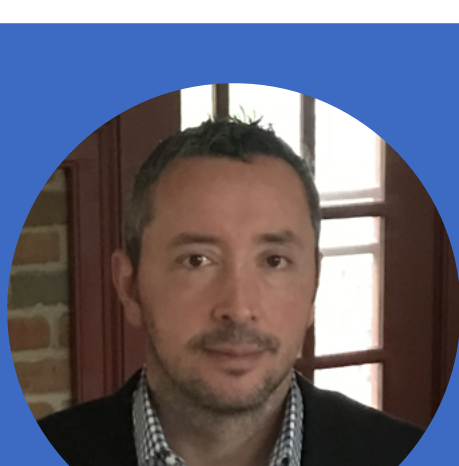
## The Cash Flow Compass: Guiding SMBs to Stability and Growth

SMBs are acutely vulnerable to the ebb and flow of cash, yet operating on outdated AP/AR toolkits only heightens their risk, a challenge that modern cash flow management tools are well-suited to solve. While SMBs stand to benefit immensely from embracing digital alternatives, establishing partnerships with financial technology providers could be a key step to making this possible. By mitigating costs and complexity, partnerships can affordably equip SMBs with tools uniquely suited to their needs in the digital economy.

PYMNTS Intelligence prescribes the following actionable roadmap for small businesses:

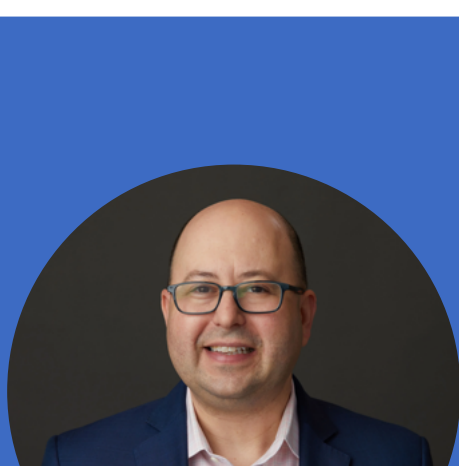
- **Automate to innovate:** SMBs should implement intelligent automation solutions that learn and adapt to a business's unique financial rhythm. This solution should automate everything from invoice generation to payment reminders, enabling prediction of the optimal timing for AP/AR processes based on historical payment behavior analytics.
- **Incentivize shorter payment cycles:** SMBs stand to benefit from a dynamic reward system that incentivizes shorter payment cycles. This tool should leverage real-time data to offer or receive discounts or other rewards for early payments and should easily integrate with SMBs' current processes.
- **Unify the cash management ecosystem:** SMBs should seek unified platforms that consolidate cash management tools, dramatically simplifying working capital management.
- **Partner to cross-tool:** SMBs should seek to partner with financial technology providers that offer seamless cross-tool compatibility and comprehensive support.

Together, navigating from cash flow pain to working capital gain is more than simply possible — it is likely. However, a team effort will be required. AR/AP automation under the aegis of strong financial partnerships can pave the way to better working capital and a bright future for the small businesses that power the economy.



“ We need to receive our payments from the customer in a timely fashion to pay our vendors as well as make payroll. Late payments cause stress for our accounting team in dealing with our vendors.”

Michael McNeeley  
President  
Streamline Cabling



“ Managing working capital is a core challenge facing small businesses today, but automating and optimizing their payment tools may help. At American Express, we're working with businesses to help them find efficiencies in their processes and manage their financials through Business Blueprint, our digital cash flow hub, so they can manage their business as is and also prepare for what's to come in the next chapter.”

Brett Sussman  
Vice President of Blueprint Marketing at American Express

### Acknowledgment

The **B2B and Digital Payments Tracker®** Series is produced in collaboration with **American Express**, and **PYMNTS Intelligence** is grateful for the company's support and insight. **PYMNTS Intelligence** retains full editorial control over the above findings, methodology and data analysis.

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