INDUSTRY SERIES

WHITE PAPER

RE-THINKING
AR & COLLECTIONS
for SaaS Companies

nu,mb,erz

SaaS HAS ARRIVED

The Software as a Service industry is taking the world by storm – and for very good reason.

Goodbye one-time transactions and upfront fees! SaaS, as its name suggests, is built around smaller, subscription-based transactions that recur every month or year. This recurring, predictable and measurable revenue model helps SaaS provide easily quantifiable and fast-growing revenue to companies, while offering customers convenience and flexibility. What's more, it requires less time and effort for its implementation thus bringing costs and Time to Value (TTV) down for customers.

Having seen the huge advantages that the SaaS model presents, Tech firms are ready to take the world head-on, whether it's the high-on-visibility B2C space or the highly value conscious B2B space.

And the SaaS industry, while changing the way businesses and consumers the world over behave, continues to power the economy with scores of innovative products and services.

BUT WHY SO MUCH ADO ABOUT ACCOUNTS RECEIVABLE?

- Accounts Receivable, that happens to be one of the biggest cash-traps in a business, is the amount of money due to a company for goods or services delivered, but not yet paid for by its customers.
- Many companies scale their business by allowing a portion of their sales to be on credit. These unpaid invoices mean a blocked working capital which could otherwise have been used to run the business, to make up for which, companies then borrow money from banks at an interest, which is again, an additional cost.

In a nutshell, the lesser your cash stuck in AR, the lesser the cash you borrow and pay interest for.

DEBUNKING THE MYTH AROUND SAAS COMPANIES

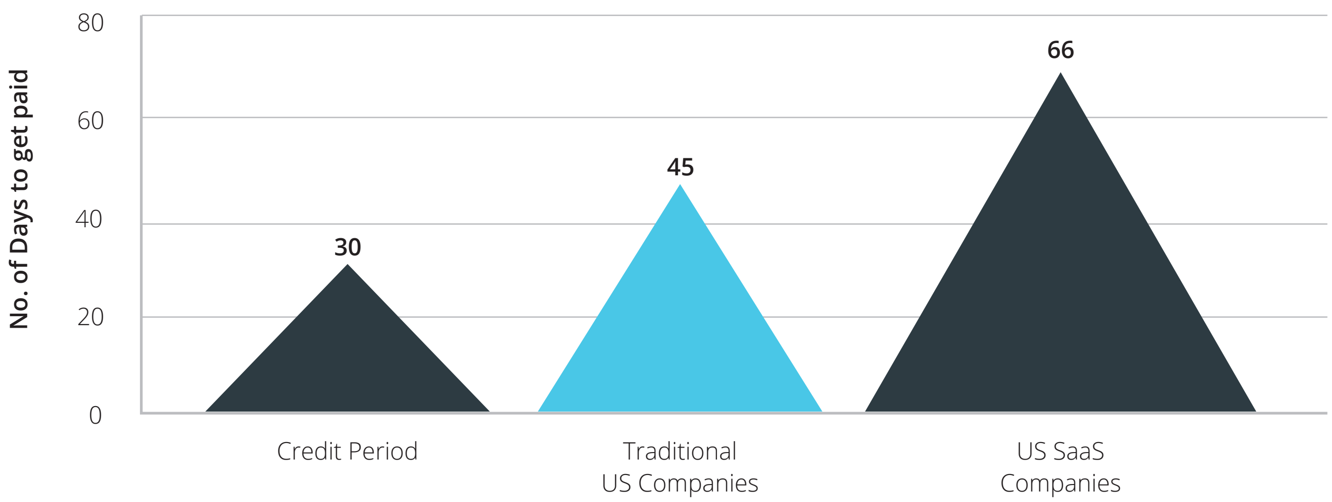
It's a common misconception that SaaS companies don't have AR issues, since:

- They have customer credit cards on file.
- If the customer doesn't pay, they can always suspend services.
- They are in regular touch with customers, so it's easy for them to collect dues.

But this can't be farther from the truth. Here's why.

We analyzed all the companies listed in BVP index and made these surprising discoveries.

Average delay in receiving payments



SaaS companies are getting paid 44% slower than the rest of the US.

The figures suggest, that contrary to the usual assumption of timely invoices and on-time payments, an average company in the US gets paid in 66 Days. 49% of the companies have an average DSO of 86 and companies with revenue ranging between $100M-$200M have DSO's higher than 80 days.

A staggering sum of $40M is stuck as market outstanding.

That is, if SaaS businesses have 20% of the subscription fee as market outstanding at any given point. This becomes a huge problem for a SaaS company that impacts its cash flows negatively, creating a gap in its working capital and shortening its runway. This is considering that 84% of the BVP indexed companies show a revenue of more than $200M.

Shorter runway.

Most SaaS businesses are funded through equity which is one of the most expensive ways of raising capital. Spending such money on collections only shortens this runway further.

35% of the sales teams' bandwidth is spent on collections.

The bandwidth of the sales team used in following up on delayed payments, instead of being focused on sales, further impacts revenues.

DSO's of SaaS companies are higher than average.

30% of all SaaS companies take more than 90 days and up to 150 days to collect their receivables.

A quick analysis of more than 74% of these companies which are in the Growth phase revealed the following disturbing figures:

- All companies showed an increase in receivables.
- More than 25% of them had a reduction in cash and equivalents.
- About 50% had receivables in a range greater than 20%.
- More than 13% of them had Accounts Payable greater than or equal to their Accounts Receivable, a statistic hardly healthy for any company.

WHY IS AR SO TRICKY IN THE SaaS INDUSTRY?

SaaS companies:

- are focused on increasing sales and often don't look too closely at the cost of unpaid, delayed or disputed invoices,
- serve customers in different geographical locations,
- need to deal in various currencies,
- offer a variety of subscriptions (Prepaid/Post-paid).

All these factors further complicate the AR process for SaaS companies, which, even to begin with, is a far-from-linear and mostly manual task in most companies.

According to the old school of thought, SaaS businesses classify their customers as per the BCG growth matrix parameters. However, with the new business ecosystem and SaaS becoming the norm, here's our slightly different take on it:

GROWTH MATRIX - REBOOTED

At present, businesses are using their customer success parameters solely to steer exponential growth and retain customers with a strong focus on product usage, user growth and MAUs. They aren't measuring any of the financial parameters that can predict a clients' behavior in terms of - payment terms, payment delays, follow-ups required and issues and disputes raised by them.

Growth Matrix - Rebooted

Low | High

Customer Success Parameters: High | Low

Question Marks

- Good Product Usage
- Continuous payment delay Patterns
- Many follow-ups required
- Increasing MAUs
- Disputes in payments

Star Customers

- Good Product Usage
- No delays in payments
- No follow-ups required
- Increasing MAUs
- No/ Very disputes in payments

Dog

- Less Product Usage
- Continuous payment delay patterns
- Many follow-ups required
- Decreasing MAUs
- Disputes in payments

Cash Cows

- Less Product Usage
- No delays in payments
- No follow-ups required
- Decreasing MAUs
- No/ Very Few disputes in payments

It becomes critical then, for businesses to understand these behavior patterns to make sure that they continue to grow while ensuring that a healthy and predictable cash flow is maintained at all times.

THE NUMBERZ ADVANTAGE

Numberz AR is a secure, cloud based, B2B Accounts Receivable and Collections Automation platform that enhances Cash Flows and Working Capital of businesses.

We significantly improve the speed, efficiency and effectiveness of collections while providing AR insights using AI and Machine Learning. We help growing SaaS enterprises reimagine their AR processes – in a way that existing ERPs and bespoke solutions can't! We integrate seamlessly with core banking platforms And with subscription-based businesses, that have a large customer base, multiple product lines, multiple currencies and with billing data spread across multiple data silos - we truly believe that Numberz can add substantial value.

IF IT AIN'T BROKE, WHY FIX IT?

Here are a few comments from the CXOs of SaaS firms – across geographies. Almost all of them sound fairly logical and straight-forward. But they don't give us the entire picture.

The devil does lie in the details – but as the Numberz research team found out – it might sometimes be lurking in the receivables!

An automated system will reduce manpower dependency.

> **"We are a new-age firm. Why do we need other solutions?"**

- SaaS is a new industry with a basic assumption that as long as the focus is on increasing bookings and sales, money will follow and collections as a function, unfortunately, takes a backseat.
- Also, being a new-age firm is all the more reason to use an efficient, automated system, that lets you focus on the business instead of having to worry about manpower-heavy people management tasks.

An ERP can't do away with time-consuming manual coordination between Sales, Finance and Clients.

> **"We have a shiny new ERP. It should take care of most of the stuff."**

- Most ERPs don't focus on the functional aspects of collections such as working with clients and managing customer interactions.
- They lack coordination between the Sales function, the Finance function and Clients.
- Most data and interactions in ERPs are managed over emails and complex spreadsheets.

70% of all payment delays are because of internal process inefficiencies.

> **"Our clients are all large companies. They would pay on time. And even if they don't, there's not much we can do. Can we?"**

- Most delays are not because of intent deficiencies and 70% of all payment delays are because of process inefficiencies.
- A robust collections process needs to be more pro-active than reactive with the necessary actions starting the day an invoice is generated, rather than waiting until it becomes due.

Teams' should be focused on steering growth and not on managing AR.

> **"Our teams are super-efficient. All our date is in a single location. So managing AR is a breeze."**

- The assumption that efficient teams - is all that one needs for growth of a business, can prove fatal if things continue to be manpower-driven in functions as critical as AR and Collections. Also, these teams can be better used in growing the business and in functions that really require human intervention, like sales.
- Data needs to be decentralized and made visible to all, so that everyone can have access to what they need, right when they need it.

HOW IS NUMBERZ DIFFERENT?

We help bring down Sales outstanding and free up Working Capital

We make Customer Credit-Risk Visible and Predictable for all stakeholders

We help cut-down non-productive time spent by the Sales and Finance teams on Collections

Let's talk Numberz then, shall we?

ABOUT US

Incorporated in 2015, Numberz is a fintech firm that offers you a best-in-class solution that gives you water-tight control over your Accounts Receivable function. Our AI-driven AR solution can integrate seamlessly with your ERP system and can help you track invoices, drastically bring down market outstanding figures and equip you with insights and data-trends that will help you take informed financial decisions.

Backed by marquee investors like Sequoia Capital, Kae Capital and Vinod Khosla, Numberz boasts an association with 14000+ small and medium businesses and 150+ enterprises that are managing their collections on this platform.

With a presence in India, USA and UAE, Numberz brings in the expertise of a 60+ strong team and is fast becoming a one-stop-shop for Corporates to Automate, Analyze and Accelerate all things AR!

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