A PARTNER TO GROW WITH

In the wake of COVID-19

CFOs approach to Remote Work and Automation

Introduction

The way many companies work has changed fast during the COVID-19 pandemic, sending them scrambling to learn how to manage a distributed workforce and quickly transition to more automated processes.

At Wiss, we are interested in how this is playing out for our clients, and the Wiss CFO Advisory Team has been conducting discussions with small business CFOs and controllers about the challenges, strategies, and benefits of establishing and refining these processes.

To get a more broad-based picture, we sent a 15-question multiple-choice survey to more than 2,000 of our clients, both CFOs and other financial leaders. Responses came from a range of industries including real estate, engineering, life sciences, retail, and manufacturing.

Paul Ursich and Travis Miskowitz, members of the Wiss CFO Advisory Team, interpreted the results to provide insights into financial professionals' leading concerns and to elucidate what they are learning during this unusual and eventful time. The results suggest best practices and actionable solutions that can help companies manage a shift toward remote work and automation.

Overview of Findings

The most noteworthy finding from our survey is that companies generally continue to have a low level of automation in accounts payable and accounts receivable. Survey respondents report using complex manual methods to manage these processes, which usually involve the effort of multiple people, extensive data entry, timing concerns, and unnecessary resource use.

The survey reveals that companies can save both time and money by automating these elements of their accounting. Not only that, but automating can help with cashflow forecasting, of which there was a notable lack among our survey respondents. A full quarter of respondents report not doing internal cash forecasting or budgeting, an indication that a surprisingly large number of businesses lack even the most basic strategic analysis to support success.

Despite the importance of revising one's strategic plan to keep up with the rapid changes wrought by the coronavirus epidemic, the survey reveals a startling number of businesses that haven't done so. The survey also reflects an ongoing disagreement among financial professionals regarding whether to maintain their accounting systems on the Cloud or on an in-house server, a debate that may be settled in favor of the Cloud in the near future as companies that need work-from-home capabilities weigh their options.

Overall the survey finds enormous opportunities for companies to make their operations more streamlined, efficient, digitized, and automated in order to increase their chances of stability and success during this precarious time in history.

Analysis of Findings

The survey posed multiple-choice questions on a range of broad topics: cashflow management, the monthly close process, accounts payable, and disaster recovery and business continuity planning.

The analysis below offers context, perspectives, and advice on each questions from Wiss CFO Advisory Team members Paul Ursich and Travis Miskowitz.

Paul Ursich, CPA

As a Partner of CFO Advisory Services, Paul enjoys bridging business processes and technology. By utilizing his extensive experience in the financial industry, he works in conjunction with decision makers to streamline their financial activities. He prides himself in providing an honest and forthright assessment of unique client situations by implementing a strategy that fits both their short and long-term goals.

Paul's specialties include financial reporting and analysis, revenue recognition, accounting process review and re-engineering, accounting system design and implementation, due diligence and transaction support, and board of directors reporting.

Travis Miskowitz

Travis is an experienced CFO with startup to mid-size companies involved in financial services, E-commerce, urban healthcare, hospitality, real estate and travel management. He currently provides SMB companies with strategic business and financial advice in addition to managing day to day controller/CFO activities. His prior CFO roles include 3 credit unions (including playing an instrumental role in a takeover), where he learned to manage and improve systems, people and processes in a heavily regulated environment.

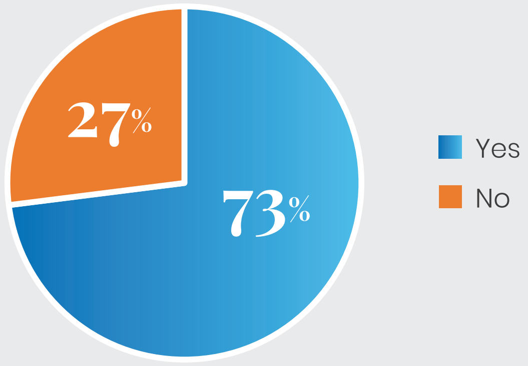
Travis excels at traditional CFO responsibilities including leadership, FP&A, fundraising, and pre and post M&A activities including loan sales, debt restructurings, and systems/personnel integration. He is a growth-oriented leader with diverse industry experience and a proven track record of exceptional performance, focusing on financial management and including financial planning and analysis, financial reporting and transparency, strategic planning, budget, accounting, and risk management.

Cashflow Management

Bank deposits

Scanning checks for remote deposit is the first step in automating your accounting system. It's a basic and easy method that saves a large amount of time and aggravation. Remote deposit is so useful that banks and credit unions offer it for free and use it as a central selling point to attract business customers.

Do you use a remote deposit scanner for bank deposits?



The fact that 73% of our respondents do it is not a surprise; in fact it's only surprising that everyone isn't doing it already.

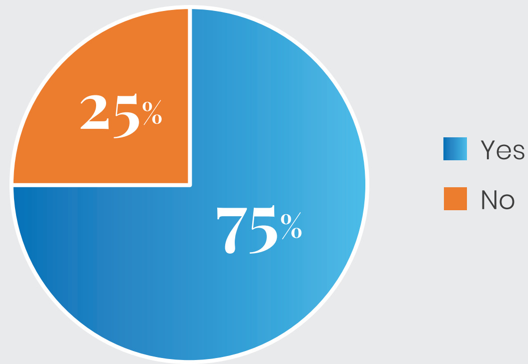
Remote deposit capabilities have a number of business benefits. It speeds up your cash collection cycle, which helps with your cashflow and liquidity. It assists with fraud prevention and efficient use of staff time. It also increases your options for banking, since you need not be limited to your local area in seeking out a financial institution that offers the best, most personalized services.

Banks make this first step in automating your system readily available to you for free, in most cases. You just need to make sure the banking software integrates with your accounting system and then integrate remote deposit scanning into your workflow.

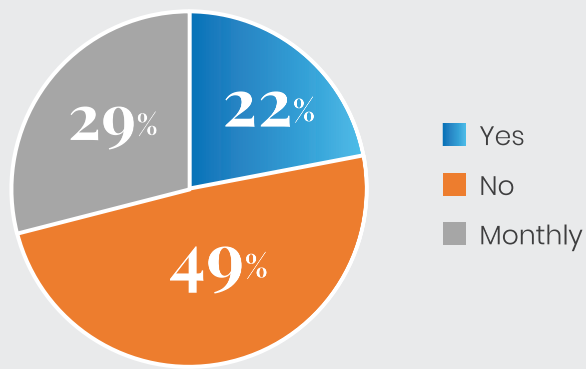
Cash forecasting

Another key piece of cashflow management is budgeting and forecasting. The quarter of our survey respondents who reported that they do not do internal cash forecasting or budgeting probably represent companies with less than $25 million in revenue, since companies of this size don't tend to have dedicated finance staff who would make this process a priority.

Do you use an internal cash forecast/budget?



If you do, how often do you update cashflow?



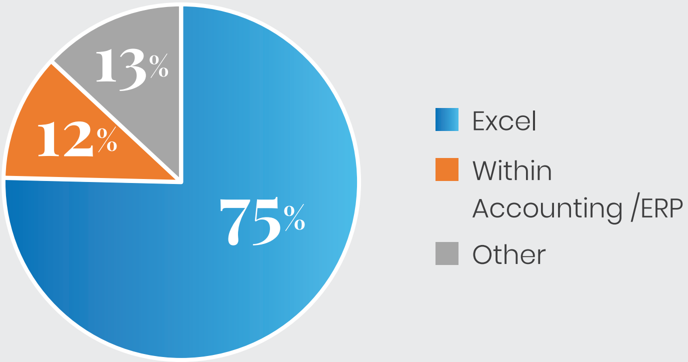
In the mid-market segment, we often hear business owners say they make decisions based on what they see in their bank account at any given time. In doing so, they probably aren't accounting for outstanding checks that haven't yet cleared or digital payments that will hit the account in coming days. This approach limits their ability to make strategic decisions.

Cashflow modeling

Cash forecasting is one of the most basic and straightforward forms of business tracking and analysis. Weekly cashflow forecasting can be useful and makes it easier to update during each analysis, but most small businesses will likely find monthly forecasting sufficient.

To begin cashflow forecasting, you need a cashflow model. Once you have it in place, you will be able to track a range of other metrics to drive sustainability and growth in your business.

How do you create a cashflow model?



It is predictable that three-quarters of respondents are using Excel to create a cashflow model because that is a cost effective and readily-available solution. Some accounting systems may have an integrated forecasting solution, but it may be rigid and lack key functionalities. Any automated software that can forecast cash flows well may be cost-prohibitive.

It is important that your cashflow model is customized for your particular business. For example, one business may collect receivables every 30 days, while another might collect every 90 days, depending on the standard in each respective industry. If 30 days is normal in your industry, applying a model suited for a 90-day industry would fail to identify issues with collecting your receivables on time.

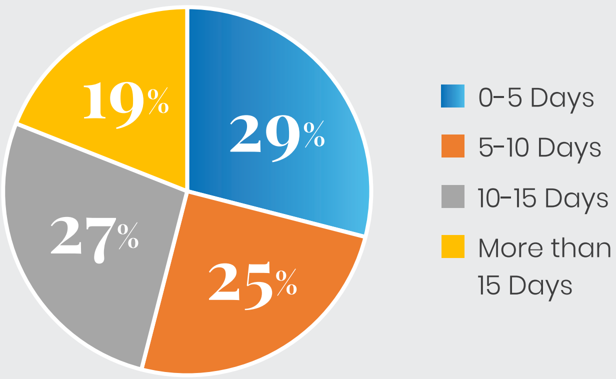
If you're using outsourced accounting, your accounting firm may have some advisory groups that can help you with forecasting using Excel or other business intelligence tools. When we provide CFO-level support to our Wiss clients, we have a three-pronged approach: build a model from scratch and tailor to client's industry and operations, work with a client's existing cashflow model back-testing key drivers and assumptions (and recommending updates if necessary), or utilizing a business intelligence tool to build an automated and integrated model from scratch. Our approach always takes into account the client, their staff and capacity; the focus is on ease of use and a repeatable process.

Monthly Close Process

Length of close process

Closing your books is essential to be able to report the results for a given month. Were you profitable that month? Did you take a loss? Did you buy inventory that you didn't sell?

How long is the monthly close process?



Our respondents spread out fairly evenly across the spectrum from a short to a long process for closing their books. Anything less than 10 days is a quick close; 10-15 day is more typical. More than 15 days is a bit lengthy, and if you can't close your books by the 20th of the following month, you may have more significant structural issues. Timely financials are essential for owners/principals/the board to make strategic decisions.

There are some reasons that companies may have short or long timing for closing their books. If you are a subsidiary, you may be required to close your books within 5-10 days to report back to your parent company so the parent can close their books with all their subsidiaries and report to their board by the 15th or 20th of that month. Also, investors such as venture capital or private equity firms may require quick closing after a month's end.

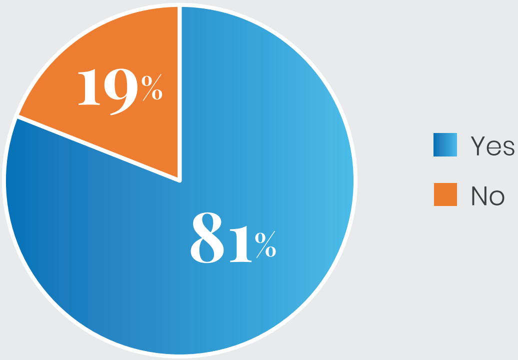
On the other side of the spectrum, in some industries, accounting and reporting are a little more complicated so closing the books can take a bit longer. For example, in the construction industry, there are project managers and billers associated with specific projects, who have to send information back to the accounting department to process and close the books for that month.

Method of reporting

Each month when you close your books you should be producing an income statement, a profit & loss statement, a balance sheet, and a statement of cash flows. It should be the same package month after month, which allows you to ask questions like: Were we more profitable in June of 2020 than in June 2019? Did we gain new customers between January and June? Did churn increase this month?

It's good news that 81% of our respondents follow this practice.

Do you create a standard reporting package?



If there are some factors you would like to account for only in certain months or seasons, you can perform ad-hoc or variance analysis during these times, but they should be in addition to the standard reports you run monthly.

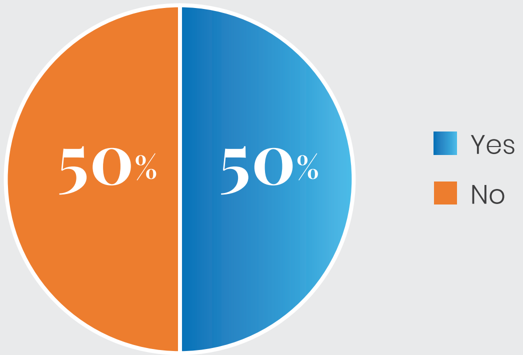
The fact that reports should be the same each month means the process lends itself to automation. The biggest benefit to automation is that you receive reports more quickly so you can dedicate more time to performing strategic analysis and developing meaningful insights and actionable next steps.

For many of our clients, we provide a standard package of monthly financials using Excel. The package organizes the client's financials in a manner that helps them evaluate current financial performance in addition to KPIs. By automating the monthly close and financial reporting package, the goal is to link historical financial information in a manner that drives predictive analytics for future performance. It is good to know what happened and why, but the goal should be to build a forward-looking discipline.

Journal entry approval

Instituting a journal entry approval process is a central way to prevent fraud in the closing process. Depending on the amount of the journal entry and the type of entry being recorded, a review and approval should be performed by the assistant controller, controller, or CFO.

Do you have a journal entry approval process?



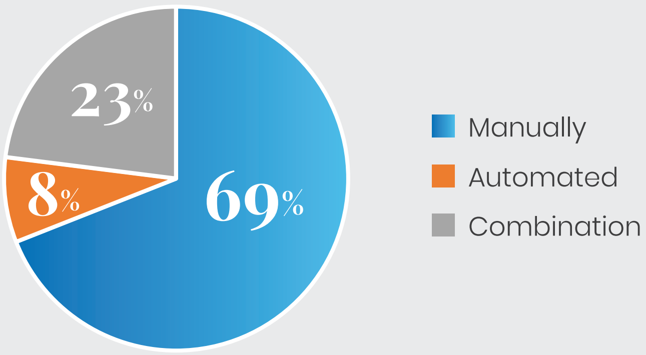
It is surprising that half our respondents reported not having an approval process in place. It reveals a lack of internal controls that may be problematic, as accountants in those businesses with any level of experience and training can post journal entries without review or approval. These entries could be used to mask fraud, underperformance, or mask errors.

Accounts Payable

Vendor invoice processing

Unless you automate the process of entering vendor invoices, you have to pay an accounts payable staff person to enter the invoices manually. This means paying probably $40,000-$60,000 for salary, plus benefits and overhead, which can easily add up to $80,000 per year. You can realize massive savings if you use a service like Bill.com or Concur to automate the process.

How do you enter vendor invoices?



Yet 69% of our survey respondents report continuing to do this process manually. In many cases, this is due to an attitude of, "this is how it's always been done and if it's not broke, don't fix it." In some cases the president or CEO is not open to automating or staff resists implementing an automated solution.

We tell those who are skeptical of automating to consider the details of the manual process: when an invoice is sent to your office, you have to open the mail or the PDF and then manually enter the invoice information into your accounting system. What if you enter mistakes that cause the payment to be delayed or sent to the wrong place? What if you accidentally throw an invoice away and never enter it at all? The next month you may have an angry vendor contacting you for payment or your internet being shut off unexpectedly.

Some executives fear automating because they don't want to lose control of the process. In reality, there are actually more controls over your process with solutions like Bill.com. Using such tools, you can control who can do what in the system, such as who can create a vendor, and who has approval of invoices and up to what dollar amount. You can require up to six approvers on very large invoices.

Putting these controls into an automated, centralized system actually makes fraud less likely. One of the most common frauds reported at companies is a collusion between two or three people in AP who have different authority within the system. Say one person can create a vendor, one can enter an invoice, and one can approve and pay the invoice. These three people can get together and create bogus vendor records and bogus invoices without creating undue suspicion, especially in a large company.

Despite these benefits, not even a third of our respondents have their AP processes totally or partially automated. This is an area where companies can find extremely cost-effective improvements that also reduce fraud.

Processing checks

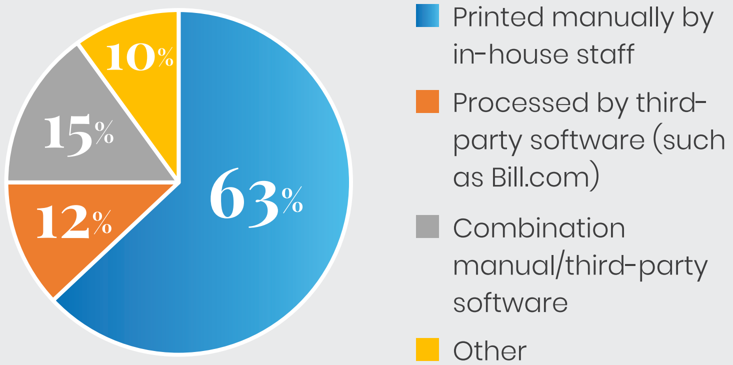
Using physical checks takes many small steps that must be managed accurately and on time. The AP person in charge has to obtain approvals for the payment, print the check, and then wait for an authorized signor(s) to come to the office to sign the check. The staff person then needs to retrieve the signed check, put it in an envelope, stamp it, and send it out with the mail. These are all small tasks, but someone must spend time doing them, and must do them just right and on time.

There are also various things that can go wrong in this process: you might run out of check stock and have to wait for new checks to arrive, delaying your process. Someone can steal your check stock and pay people with it, costing you lots of money. Checks can get lost in the mail. You may have to pay late fees if something goes wrong and your process is slow. You have to apply postage to send the check, which can add up if you're sending many.

During the coronavirus pandemic when many offices are closed, there's an added challenge of needing an AP staff person to go into the office to run and print the checks, after which the person with the authority to sign must come in and sign them. The AP person then has to go back into the office to stuff them in envelopes and get them in the mail. This slows down the process considerably, whereas if the AP process is automated, the staff's time could be reallocated to value-add analysis and service.

Despite these difficulties 63% our respondents are still sending out checks in response to invoices using a fully manual process.

How do you process checks for check runs?

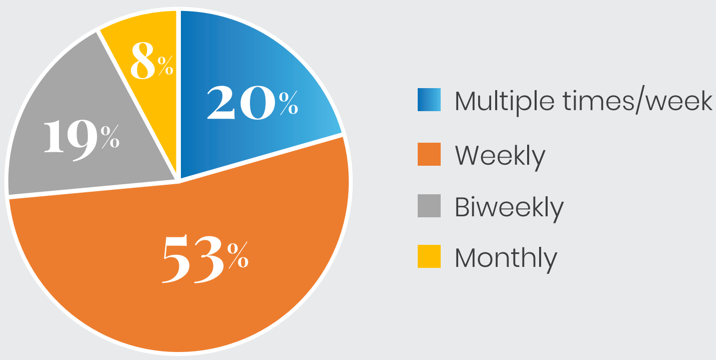


When using an automated system like Bill.com or Concur, the invoice info only needs to be entered once into your accounting system, then approval and payment via ACH is handled within the digital ecosystem. AP automation eliminates check runs, which saves staff time, cuts costs, reduces errors, and improves safety during the pandemic.

Frequency of check runs

Check runs take time and resources, so most companies want to find a reasonable cadence for this process if they aren't interested in automating. Once per week or once every two weeks is fairly standard, so it's not surprising that 72% of our respondents fall into those two categories.

How often are AP runs completed?



Making check runs multiple times per week—or worse, *per day*—is excessive and wasteful, so it's a surprise that almost one-fifth of our respondents are on that schedule. Some companies pay each bill as soon as they get it, but that's a mistake from a cashflow perspective. Your vendor will provide you 30, 60, or 90 days to pay the invoice, and paying quicker than you're required ties up cash you could deploy in other areas of operations.

The manual process of paying bills is more prone to timing issues, such as when those who need to sign are out of office or when the person who receives the check takes a long time to deposit it. With automated services like Bill.com, you can set a payment to go out on the day it's due or one day prior. Knowing exactly when payments are going out helps with cashflow projections.

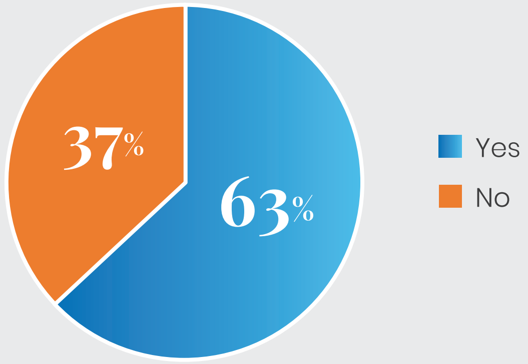
Disaster Recovery and Business Continuity Planning

Concentration of revenue and spending

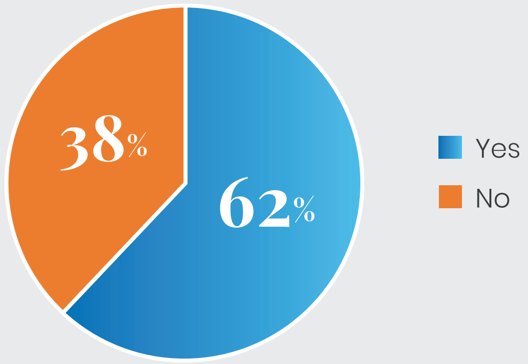
For planning purposes, especially during volatile times, it's important to understand your customer and geographic concentrations. The more concentrated your revenue across fewer customers, the riskier your business is over the long-term. If a customer that makes up 50% of your revenue goes out of business due to the COVID-19 pandemic, you are in a tough situation. Suddenly, you may not be able to cover your payroll or your operating expenses.

Even a 10% drop in revenue can correlate to significant problems for your business in the short term. For businesses with, $25 million in revenue, for example, the loss of a $2.5 million client is a significant hit.

Do you have customers that account for more than 10% of your revenue?



Do you have vendors that account for more than 10% of your purchases?



A majority of our survey respondents said they are in the situation of having one client make up at least 10% of their revenue. This is risky not only because a client may fold and deprive them of revenue, but also because it can gum up the works regarding cashflow. If too much of your revenue comes in a single payment that you have to wait for, it can cause problems with liquidity at certain times and can wreak havoc if the payment happens to be late.

Automation can help you be consistent in your collections and keep tabs on the most important payments from the big-ticket clients to ensure that you're managing your cashflow in the most efficient way.

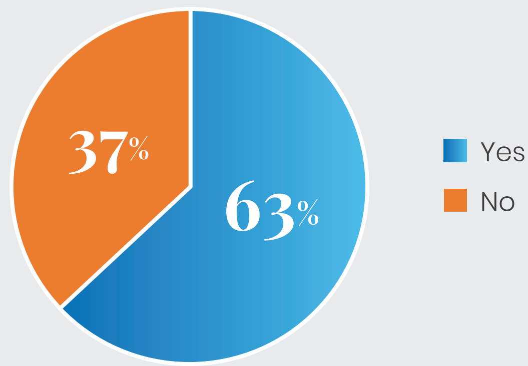
The other side of the too-concentrated-revenue dilemma is the too-concentrated-payment problem. If you have a vendor that accounts for high concentrations of your purchases and that vendor goes out of business, your business may be in trouble. It's important to have backup or redundant vendors in place so you can continue running smoothly.

If the provider sells you something very specialized, it may be difficult to find a backup. Let's say you're a construction company making a specialized pipe, and the vendor of the material you need to produce the pipe—representing 30% of your purchasing—has gone out of business. You won't be able to fulfill your customer orders unless you can quickly find another supplier, which will impact your revenue. If you had found three different suppliers of this same material and directed 10% of your total purchasing on each, having one flounder would not affect you as significantly.

Strategic plan review

The onset of a global pandemic is the perfect time for businesses to update their strategic business plans and see where they can pivot or shift to meet the moment successfully. Frankly, it's somewhat shocking that 37% of our respondents haven't evaluated their plans in light of the pandemic.

Have you reviewed your annual strategic plan and/ or revised it due to COVID-19 businss disruptions?

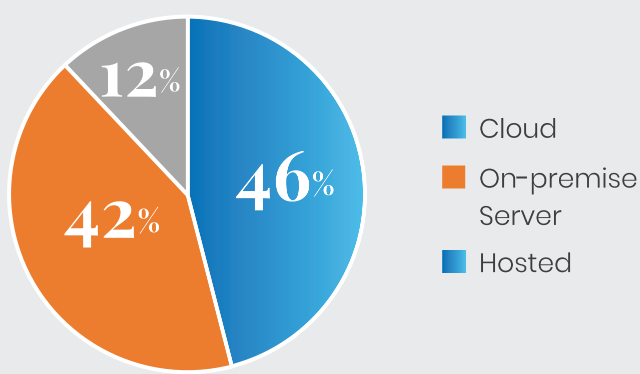


It's possible that a surprisingly large number of these businesses don't have a strategic plan in place to evaluate. Far too many businesses don't have one, which leaves them vulnerable to situations like these when they need to act fast to cope with unexpected circumstances. For example, if the pandemic presents obvious reasons to automate certain functions, like accounts payable, a business without a plan in place will struggle to understand how that shift will fit into the larger strategy and budget of the business.

Accounting system access

Our respondents are fairly evenly split between using a Cloud-based accounting system and an on-premise server to store the accounting system.

How do you currently access your accounting system?



A major advantage of Cloud-based systems is that they can be easily accessed remotely, so if something such as a pandemic prevents workers from coming to the office, they can still work on the system. At Wiss, we put our systems in the Cloud after Hurricane Sandy forced us to realize how impossible working remotely is when you rely on an in-house server.

Similarly, a real estate company we work with that uses an in-house server had employees without remote access when the coronavirus pandemic struck. Employees had to come to the office a few days a week even when it was officially closed to access the server. We are helping them move to a newer version of their accounting software so all of their employees can have remote access to their system in the future.

Even for systems that need to be server-based, you can gain remote access using a VPN or put it in a hosted environment. If you go that direction, you'll need to think about what sort of data security and cybersecurity procedures, processes, and policies you have in place.

Automation and Remote Work Are the Future

This may be a cliché by this point, but investing in automation and remote work capabilities is the smart choice for any business with an eye toward the future. This was the case even before the pandemic made it increasingly obvious that lacking these efficiencies will make it harder and harder for you to compete the economy of the fast-changing 21st century.

At Wiss we have gone through our own evolution on these topics, particularly when we reckoned with our own lack of remote-work capacity after Hurricane Sandy shuttered our offices. Just like our clients, we have found the process of innovating in these ways to be sometimes daunting, often empowering, and always the right thing to do. It has been a learning experience that has made us much stronger and more resilient as a company and better able to advise our own clients on the best ways to set up their own accounting systems for the greatest chances of success, now and into the future.

Have further questions about Automation and Remote Work?

Please reach out at hello@wiss.com