Accounting Automation in Retail

Transforming accounting processes in an era of unprecedented industry change

A BlackLine & RSM White Paper

Accounting in the Retail Industry—Unprecedented Change

The retail industry has experienced a substantial transformation over the past several years—and change is anticipated to accelerate further.

The rise of Amazon has prompted other retailers to strive for a seamless omnichannel experience. How customers pay for products and services has shifted too, from the growing payment options to an evolution in consumer preferences toward subscriptions. Additionally, customers have higher expectations for customization and discounts, which squeezes margins more than ever before.

Accounting teams at retailers have always faced heavy workloads, even before the disruption that is currently underway. With large volumes of data coming from different sources, such as payment providers, POS systems, and vendors, accounting teams have often struggled to reconcile transactions, post journal entries efficiently, substantiate account balances, and monitor key activities.

Managing all of this with spreadsheets has remained common, despite their inefficiencies and risk. However, it's doubtful that these brittle manual processes will withstand the next wave of disruption.

Omnichannel Strategy Creates Growing Complexity

Just 10 years ago, omnichannel was more straightforward. It meant brick and mortars, web, and a handful of online marketplaces.

That's now changed. Integration to new and unique retail channels is imperative to remain competitive. However, these different methods of shopping, each with their own payments, are growing at a rapid pace.

Implications for Accounting:

The volume of transactions and related complexity resulting from these different methods of shopping and related payments can quickly overwhelm Accounting. The speed at which companies are launching these new initiatives and programs adds another layer of accounting complexity.

New Systems & Processes to Meet Subscription Demand & Changing Payments

Moving from buying products to purchasing experiences is a growing consumer trend, and retailers are satisfying this shift in the form of subscription offerings—everything from clothing to pet supplies offered in a monthly or quarterly subscription-based model. And there seems to be an ever-expanding array of new payment options too, from Apple Pay to Google Pay and even Amazon Pay, not to mention the rise of digital currencies.

Implications for Accounting:

The deployment of new billing systems or other custom-developed applications designed to manage it creates yet another data source that must be part of the core reconciliation process. A growing payment landscape is great for consumers and also for retailers to expand reachable customers, but each one requires different payment processing and more systems to reconcile, and can increase the number of ways errors can creep in during the financial close.

Increased Global Regulations Add to Workloads

Accounting and tax teams are still challenged to manage the recent accounting regulation around online sales tax to ensure they're not vulnerable to litigation, and now the new IFRS 16 and ASC 842 lease accounting standards, which came into effect in January 2019 for public companies, add further effort by requiring retailers to account for the costs of renting their premises.

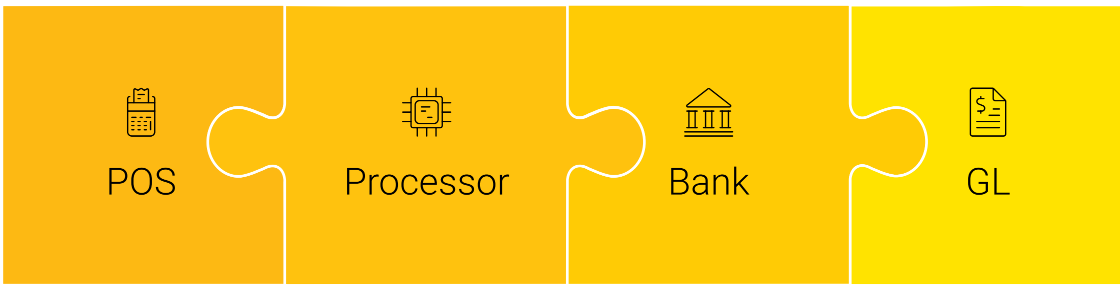
Implications for Accounting:

These new regulations add massive effort to calculate the correct values for potentially hundreds or thousands of leases—and create a significant reporting overhead.

Traditional close processes, including reconciliations, are demanding enough for accountants in the retail industry, especially with the torrent of volume during the holiday season. However, the rapid pace of industry change has placed an almost unreasonable burden on accounting departments.

Order-to-Cash Reconciliations—Ripe for Automation

Much of Accounting's time is often spent on transactional processing, like tasks related to the order-to-cash process. It includes reconciling transactions across POS systems, payment processors, and banks to the general ledger, and now, with a growing range of systems in play across ecommerce, omnichannel, subscriptions, and other areas, reconciliation burdens are only likely to become more pronounced.



Pain points often center around:

- ⊗ **Data inaccuracies and incompleteness.**
  It's increasingly easy for data issues to creep in during the period, such as inaccurate credit card fees, inconsistencies between systems, or simply a dataset that isn't complete.

- ⊗ **Data sprawl caused by disparate systems.**
  The challenge above is usually compounded by a sprawling data architecture of numerous sources—from multiple POS systems to many bank accounts—each with separate reporting interfaces to export data from and paste into spreadsheets. This often requires different general ledger account mappings, date formats, or other fields that require VLOOKUPS and other manual methods to map and join transactions across systems.

- ⊗ **Batch and timing issues.**
  When the processor groups multiple transactions for one bulk payment, challenges can often arise from timing and grouping complexities. Timing issues are caused by differing sale, processor, bank, and ledger posting dates. Time zones can also create complexity due to various POS and processor cut off times, depending on location. Additionally, transactions from multiple stores across multiple days can potentially be batched together, making it more difficult to differentiate which transactions have been processed.

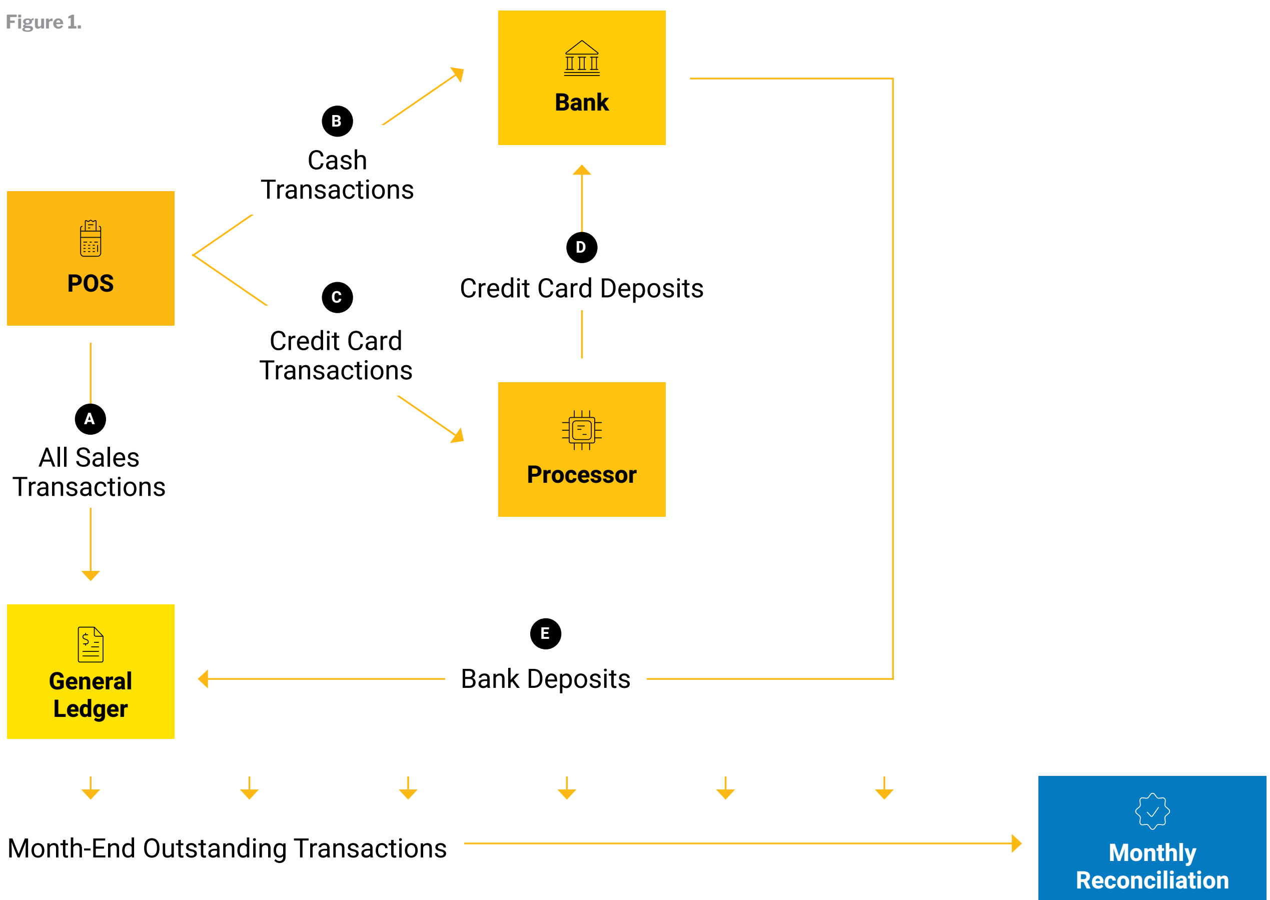
- ⊗ **Different tender types.**
  Finally, the growing number of tender types, from traditional cash and credit card to PayPal and Google Pay, create more data silos that complicate the whole order-to-cash reconciliation process—requiring more extracts, more mappings, and further room for error.

Five Best Practices for Reconciling Retail Accounting Data

There is a vast difference between the high-performing accounting teams and the bottom-performing ones, with the latter requiring 3.5x more FTEs for the same tasks.[1]

So, what are top performers doing differently? Here are five proven best practices that provide a way forward.

Figure 1.



[1] 2018's Biggest Finance Focus: Improving General Accounting and Reporting Processes, APQC

1. Deploy a closed-loop process.

Utilizing the latest technology enables automated data extraction, transaction matching, and rules-based reconciliation, without requiring manual overhead. Opportunities include auto-reconciling transactions from:

A. POS to General Ledger

B. POS to Bank (Cash Deposits)

C. POS to Processor (Credit Card Transactions)

D. Processor (Credit Card Deposits) to Bank

E. Bank to General Ledger

A combination of automation and integration of order-to-cash applications and data sources enables the move to a more frequent, if not daily process—which in turn can accelerate financial close times by up to 80%. See Figure 1.

2. Create an automated link between general ledger reconciliations and their underlying transactions.

Data integration removes the need for manual extracts and spreadsheet-based formatting, merging, and mapping. Leveraging a scheduled feed that pulls data from each system into a single location, while in the process correcting, transforming, standardizing, and normalizing fields, your team can access the data and prepare reconciliations as soon as it's their turn in the workflow.

3. Move to an exception-based approach.

Using technology to automatically match millions of transactions between data sources—one-to-one, one-to-many, and many-to-many—allows your team to focus on the variances or transactions that were left unmatched.

This exception-handling process, coupled with a digital workflow to alert, review, approve, and document support, is where most of Accounting's time should be spent—not manually ticking and tying to get to those variances. Highlighting thresholds for fluctuation analysis also facilitates the move toward being more analytically driven rather than transactionally focused.

4. Automatically generate and post journal entries.

Because of the high-volume transactional nature of the retail industry, journal entries can frequently create bottlenecks in the month-end close process. Whether that is recurring journals for prepaids or adjusting entries to account for bank fees, having a manual journal entry process only increases room for error and inefficiencies.

Accounting automation solutions can integrate with the reconciliation process to automatically create, validate, and post journals based on all data sources and supporting items, such as bank fees and other unmatched transactions, to reduce workloads and risk.

5. Centralize and standardize policies, processes, and procedures.

Move away from manual, spreadsheet-based processes and incorporate leading industry best practices. This includes a centralized and integrated financial close checklist, with all accounting tasks executed and tracked in one central location. With technology, your team will follow uniform policies and procedures while completing tasks for a more transparent, reliable, accountable, and auditable work process.

Automation in Action at Global Retailers

With more than 1,900 retail clients nationally, RSM brings insight and consulting proficiency to all segments of the industry. From convenience stores and grocers to specialty stores and e-tailers, RSM delivers accounting expertise to retail-specific services, as well as advice on vital topics, including changing consumer preferences, branding, technology, real estate, risk, and labor issues.

More than 230,000 users trust BlackLine's financial controls and close automation technology in over 150+ countries. Some of the world's most prominent and recognized brands rely on BlackLine, such as Hershey's, Levi's, Nike, eBay, and Groupon. BlackLine automates the most complex and manual retail accounting processes that organizations face by providing an integrated cloud-based platform that easily connects to the ERP, POS system, bank, payment processor, and any other application within the enterprise.

Streamlining accounting processes in retail is a journey of continuous improvement. BlackLine and RSM are applying the latest technology and ever-evolving best practices at leading retailers to enable them to upgrade, adapt, transform, and continually optimize their processes.

National Health & Fitness Company Saves 40 Hours Per Month on Data Matching

Headquartered in New York, this American luxury fitness company has numerous locations nationwide and an increasing presence abroad.

In the midst of this growth, coupled with a high-volume, transactional business, the national fitness chain struggled to reconcile millions of transactions across various banks, processors, and point of sale systems.

Key Challenges

- **Significant drain on IT and accounting resources.** The IT team created a data warehouse in an effort to reduce the various sources and use simple SQL queries to match as much as possible, sometimes resulting in incorrect matches. It also lacked the ability for complex matching, such as many-to-one scenarios. This process became unsustainable with continuous strain on IT resources to modify the queries, as well as a limitation on what data could be ingested. Accountants still spent hours performing detail-heavy matching in spreadsheets.

- **Balance sheet risk and unreconciled items.** The data warehouse did not contain all the data from the various POS, banks, and processors. This led to some daily cash reconciliations being performed in SQL, while others were performed with manually downloaded CSV files that were then manipulated in Excel. With so many processes in play, the team was challenged to ensure all accounts were reconciled accurately and on a timely basis.

- **Lack of a clear audit trail, with an ad-hoc approval process.** A lack of digital workflow and approval process, and supporting documentation spread out everywhere, meant that reconciliations sometimes lacked the proper evidence of completion and approval. There was no audit trail, making it difficult to track signoffs and dates.

25% cost savings on reconciliation process	**>40hrs** per month saved on matching	**65%** of monthly reconciliations auto-certified	**60%** reduction in time spent on reconciliations

Results

Boosted accounting efficiency on reconciliations by 60%.
By working closely with RSM and deploying BlackLine Account Reconciliations and Transaction Matching, the accounting team was able to substantially drive efficiency and cut costs related to reconciliations by 25%. They now spend less time on the mechanics, and instead, focus on analyzing business trends and exceptions.

More centralization and strengthened controls.
Centralized reconciliation templates and a secure, easily accessible repository for all supporting documentation provides greater standardization and control versus spreadsheets and desktop folders. An electronic workflow process notifies Accounting about exceptions and provides an audit trail at each step—from preparation to approvals.

Saved over 40 hours per month on manual matching.
Using BlackLine Transaction Matching, the accounting team automated the preparation of daily cash reconciliations and POS settlements, gaining significant productivity benefits. Daily bank activity is automatically integrated via scheduled feeds, and matching results are obtained daily, while exceptions are routed to the appropriate parties.

Self-sufficient accounting team.
The team stopped relying on IT to update queries and load data. Administrators are empowered and trained to create new import profiles as businesses are acquired, as well as update logic to mimic repetitive manual matches as new scenarios are uncovered.

What's Next?

The next step in their finance transformation journey is centered around continuing to grow their matching footprint as other use cases for matching are discovered, including AP, AR, and payroll as potential targets.

Leading Food & Beverage Corporation Reduces Time-to-Close by 80%

Based in Fort Lauderdale, Florida, this food and beverage corporation manages locations across Florida, and is owned by a larger diversified holding company with several retail organizations as part of its portfolio.

The national food and beverage organization faced challenges managing a unified accounting process across various locations—putting a severe strain on the accounting team.

Key Challenges

- **Substantial spreadsheet overhead.** Numerous complicated spreadsheets were printed—along with the corresponding invoices—and stored in a binder in order to complete the subsequent reconciliation process.

- **Lengthy financial close cycle.** Substantial manual effort, and a lack of orchestration and visibility into the process all conspired to extend the month-end close. A daily reconciliation from each store's POS to the bank and general ledger meant accountants were spending hours per day reconciling and tracking down variances.

- **Challenging internal and external audit procedures.** Because of the highly manual process, audit procedures required additional effort from Accounting to track down variances.

35%	>60hrs	55%	80%
cost savings on reconciliation process	per month saved on matching	of monthly reconciliations auto-certified	reduction in financial close cycle

Results

Reduced manual effort on reconciliations by 35%.
By implementing BlackLine Account Reconciliations, the team standardized reconciliation processes across all entities. With an automated integrated platform, they dramatically reduced spreadsheets and paper-based processes, resulting in a significant reduction in manual effort.

Streamlined financial close by 80%.
With an orchestrated review and approval process, and a centralized location for easy access and secure management for documentation, they gained significant time-to-close benefits, while also better managing internal and external audit effort.

Auto-certifying 55% of monthly reconciliations.
By shifting to BlackLine Transaction Matching for daily reconciliations at each store, they were able to smooth out the workload for their high-volume reconciliations. As a result, accounting staff were freed to spend significantly more time tracking material discrepancies, performing analysis, and identifying ongoing patterns.

What's Next?

Next steps focus around extending automation into more entities in their portfolio, as well as deploying BlackLine into the accounting organizations of newly acquired companies.

A surge of change is underway in retail, and automation provides a way forward for Accounting by allowing a shift in focus from reactive data reconciling to proactive analysis. A reliable, closed-loop, exception-based, and standardized reconciliation process for all data sources is a proven way to cut workloads, accelerate time-to-close, and strengthen the control environment.

Retailers gain further benefits from Automation, including fewer write-offs and easier identification of trends, such as price adjustments, fraud, and fee monitoring. Clearer visibility across all sources enables retail organizations to uncover hidden or unidentified issues, like erroneous point-of-sale mappings, misallocated revenue, and revenue recognition issues.

The era of automation has arrived for accounting in retail— teams are enabled to be more effective, efficient, and most importantly, more strategic. Technology is no longer a nice-to-have, but rather imperative for retailers to stay competitive and effectively utilize resources.

Next Steps

With leading retailers already embracing accounting automation, BlackLine and RSM partner together to enable organizations to implement retail accounting best practices in their own processes. With cutting-edge automation and deep expertise in technology, process, and people, BlackLine and RSM are enabling accounting teams to transform and elevate their role.