

WHITE PAPER BEST PRACTICES

STRATEGIES FOR PEAK ORDER-TO-CASH RESULTS

JANUARY 2016

REDUCE DSO, DDO
COLLECTION MANAGEMENT
DEDUCTION MANAGEMENT
CASH APPLICATION



Overview

According to the U.S. Bureau of Labor Statistics, in 2014 there were more than 2,000,000 people involved with bill collecting and 78,000 under the category of “credit analyst”, plus uncountable numbers working in dispute and deduction resolution. Clearly, this is an area that can benefit from technology.

Many a company’s success rests on its ability to manage the receivables collection function effectively, so it is an area deserving of more time and investment than it usually gets. Starting with smart technology to drive and track the process, to educating and managing staff, to monitoring and tracking results, there is much to do - but the payoff is significant. It comes down to policy, process, practices, people, and systems, and this paper focuses on the “systems”.

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I. Introduction

Your company probably stopped using printed Rolodex cards to track your customer information 25 years ago, yet may still be using antiquated order-to-cash (receivables, credit, collection and

deduction management) systems that are disconnected, inefficient, and do not produce results anywhere equal to the best in your industry.

In the past, companies bought, built and maintained their IT infrastructures despite the huge costs because there was no choice. The Internet's exploding bandwidth changed this, and Software as a Service (SaaS) in the cloud is now a better alternative without a large investment. The SaaS model is growing exponentially because it offers serious business benefits.

We believe it serves as an important check for anyone considering implementing a modern solution for credit, collections, cash application, and deduction management.

II. Advantages OF SaaS Order-to-Cash Systems

The reasons to look at updating your order-to-cash systems come down to three things: Improved Cash Flow and Profits, Large Savings in Overhead Costs, and Better Controls and Policy Compliance. These are material to your company's financial performance.

- A. The Best-in-Class SaaS system will give you the structure to implement real discipline in your accounts receivable, credit and collection operations. It will improve cash flow, reduce bad debts, eliminate manual work, and slash overhead.
- B. A disciplined, policy and strategy-directed process for credit, collections and deduction management will deliver remarkably improved results.
 - 1. Automate most manual operations and, depending on your situation, save to 50% of your overhead cost
 - 2. Improve cash flow with a disciplined, strategy-based workflow, reducing DSO and working capital
 - 3. Reduce bad debts and 90 day delinquencies
 - 4. Reduce deduction and dispute resolution time and obtain higher recoveries
 - 5. Automate cash application for same day clean closes
 - 6. Uncover root causes of systemic problems
 - 7. Speed and improve credit decision making Centralized or Distributed or Onshore or Offshore Credit and Collections Operations under one policy-control platform with performance tracking, incorporates your business policies and best practice rules

on a corporate or divisional basis for standardized process.
Consolidates and interacts with multiple systems and company units.

- C. Production Environment. The system must be one designed for a "production" environment versus one that is only occasionally used. A production application requires **a minimum number of screens - ideally one** - displaying all the data needed so a credit, collection or deduction professional has at his/her fingertips all the information needed to resolve an issue. If you need to copy and paste data from various screens to Word or Excel so that you have all the information needed for your collection call, you have the wrong system.
- D. Low Costs. Unlike homegrown or third party ERP systems that generally cost many millions of dollars, SaaS applications require little or zero investment for software development or maintenance, and require no IT infrastructure. The costs savings can be huge, while providing a powerful solution virtually almost immediately. The system should eliminate manual and off-line work, re-entry, cutting and pasting, Excel, and use of multiple systems.
- E. Painless Upgrades. The SaaS provider handles upgrades, routine updates, bug fixes, and even minor customization for you, as well as assuring operational scalability in communications bandwidth, hardware, etc.
- F. Seamless Integration or Data Transfer. Enterprise systems have been designed to transfer data back and forth with ease and simplicity to interact seamlessly with virtually any application. You can keep the massive investment in your legacy IT infrastructure for ERP and finance and use the SaaS software for specific applications, with integration or flat file data update between the cloud and legacy.
- G. System Performance with 99% uptime, data security, and permission-based user access.

III. Management Dashboard and Reporting

The system Dashboard should have different views for the CFO, Credit Manager, Auditor, and the Collection associate, and reporting must be easily formatted and customizable without using complex tools.

- A. Empowers management with a reporting window into performance and daily operations with drill down to the customer or item level, including “push” reporting to designated recipients.
- B. Payment performance and deduction experience metrics for all customers (DSO, Days Late, DDO)
- C. Drives "production" in the credit and collection process so that your investment in people delivers the results you need.
- D. Has printable audit and reconciliation tools built in for the auditors and Sarbanes-Oxley requirements, with full detailed histories on all transactions.

IV. Global Operations

The most capable systems must include currency and language features that enable efficient operations globally.

- A. **Multi-Currency.** The ability to work in multiple currencies is a basic requirement for organizations deploying SaaS in units around the globe.
- B. **Multi-Language.** Most international business today is done in English. Nevertheless, for best results, it is important to be able to select a recipient's native language for standard communications.

V. Controls, Audit, Compliance

- A. There should be a seamless electronic integration with corporate accounting systems for accuracy and efficiency. In the event the SaaS system is an end-to-end platform, it can serve as the system of record, transferring only closing balances to corporate financial system. If used only as a power-module, detailed transaction activity can be transmitted for close to real-time updating.
- B. The system must provide detailed, complete (and printable) audit trails, and have the ability to backtrack on any transaction or application and determine who did what.
- C. For Sarbanes-Oxley, the system should, in addition to the audit documentation, provide complete data on credit and receivables metrics, as well as credit decision history, accountability, and policy compliance.

VI. Strategies and Workflow

- A. Strategies. The system will enable easy to customize "strategies" to control decisions and process workflow in the credit, collection and deduction management processes to achieve optimal results.
- B. Customized Automated Workflows and escalations will be according to prior actions, customer, type, size and age of line item, and management assigned strategies so that every issue is handled by the right person at the right time; nothing is forgotten or overlooked.
- C. Many systems make you choose either "customer" or "invoice type" workflow assignment. The best in class will let you choose to route certain sub-types or sizes of transactions to the people most prepared to handle them. Perhaps if a \$200,000 invoice falls past due, it should get special routing.
- D. Workflow automatically initiates all actions, management escalations and follow ups based on a customized timeline that details specific action steps based on customer risk, category, age, size, etc.
- E. All information needed for resolution should be available on the screen, with no tab switching or searching around.
- F. Automates all communications (calls, emails, letters, faxes) according to the strategies and circumstances. All can be customized.
- G. You can download any data or reports in the common formats (Excel, CSV, PDF, etc) for additional evaluation.

VII. Collaboration Portals for Employees, Customers and Partners

A. Dispute or Issue Resolution

The system should have partner portals that enable you to easily collaborate within and outside of your company so that problems get resolved seamlessly, without resorting to chains of emails or document transfers. This encourages cooperation and mutual accountability throughout the organization. Importantly, it gets problems solved fast.

Combined with automatic issue/problem detection and initiation of workflow with

a task to the responsible parties, they can log in and provide the information (or resolution) necessary to complete a dispute for a sales or pricing issue, solve a short shipment, file a freight claim, etc. and, if required, later escalate it to management for a decision. This improves response time and receivables recovery percentages.

- B. Electronic Invoice Presentment and Payment (EIPP).** Consider using SaaS solutions to establish a self-serve customer portal that can be easily integrated into your accounts receivable process, where a customer can securely access your portal showing their open account detail, and then pay invoices via any common payment method, as well as initiating workflow to solve any disputes or problems.. Ideally, the self-serve portal should be available both as a module and as an integrated feature in an Order-to-Cash system.

VIII. Strategy-Based Credit Management

Incorporating corporate credit policies regarding exposure approvals, documentation needs, review schedules, delinquency handling, etc., the system workflow will assure that approvals are escalated to the proper management authority for approval along with the rationale and backup required.

- A. Use a credit and payment scoring model (or policy) that triggers workflow actions; for example, at what point should you commence collection action? The scores should reflect credit risk, industry payment data, as well as your own experience with a customer.
1. The scoring should be multi-variable with creditor adjustment levels for any particular element, and must take into consideration your company's circumstances (see below)
 - a) Debtor Variables will include public and private company financials, payment histories, industry trends, business history, integrated credit bureau ratings, your historical experience, other security, etc.
 - b) Creditor Variables will include Market Share Strategy, taking more risks to gain penetration; Margin Strategy, adjusting scores for segment product margins (more risk in one segment, less in another); Risk Avoidance

Strategy where minimizing bad debts is of paramount importance, etc.

2. Based on company strategy, the scores can be converted into dollar "credit lines" subject to acceptance or modification depending on the amount. Displaying credit lines in both local transaction and base currency ensures all parties viewing the decisions clearly understand the limits.
 3. The system will constantly scan for changes in exposure, payments and external data and adjust scores accordingly.
 4. The scores will automatically include public and private company financials.
- B. Except for small volume customers, Credit Scoring usually represents a guideline for management to use as opposed to a final determination. It can be incredibly helpful in speeding up decisions in a high volume scenario.
- C. Payment Scores, using internal and external payments data, is incorporated as an element into a scoring system, and as an activity driver in the Collection Process.
- D. Credit Line Management
1. In addition to a score, the system should provide you with a credit line recommendation based on the risk criteria established for your company.
 2. It should integrate and monitor credit bureau and trade payments information.
 3. Reviews should be system initiated and place the account into the appropriate decision workflow as circumstances justify.

IX. Strategy-Based Collections

A company's success rests on its ability to manage the receivables collection function effectively, so it is an area deserving of more time and investment than it usually gets. It comes down to policy, process, practices, people, and systems. Collections needs special attention if you have not changed your ways of doing business or updated your collection systems for some years. Today, policies, practices and workflow can be built right into a system (SaaS) which by virtue of its tools, mandates best practices.

If you sell a product or perform any service on credit, you are also in the accounts receivable collection business, and your company's financial health depends on how well you do it. Unfortunately, it is one of those operations that is usually performed with insufficient forethought as to the systems, staff, strategy and tactics to employ in order to deliver exceptional results. With superior planning, execution, and technology, you can improve your company's standard metric of cash flow performance, Days Sales Outstanding, by an amount that could reduce working capital requirements enough to cut bank loans, while at the same time cutting bad debt losses.

A great SaaS collection system incorporates best-practice policies, business rules, scripts, contacts, escalations and workflows into the collection process. Just as you could not do business without a CRM system to manage customer relationships and sales follow ups, in today's business environment you simply cannot get by without a collection management system to manage your cash flow.

If you think your accounting system offers the necessary features to boost your cash collection results, you had better look more closely. If you think, as we do, of collections as a "production" function, it needs a production engine.

Matching Collection Strategy with Corporate Goals

- A. Manual collection processes and spreadsheet collection management are very inefficient and ineffective, very low productivity, prone to errors, and poor cash collections.
- B. The system should require you to think about and choose collection "strategies" (vs. the usual A-Z collection approach) which will create an environment where performance matches the corporate objectives for cash flow.
- C. The system chosen should incorporate an easy to modify "rules-based" action driver that takes into consideration your corporate objectives and policies and manages collector activity and priorities. It also will adjust collector actions based on changes in customer risk.
- D. Supports simple-to-assign alternative collection strategies, or a combination of strategies, depending on the collection staff expertise and customer risk categories.
 - 1. "Risk Scores" strategy, attending to the riskiest customers first to avoid bad debts.
 - 2. "Payment Scores" strategy, using your historical payment information to re-train customers payment habits.

3. "Payment Gap" strategy, which benchmarks your customer aging against your industry (ask Smyyth for more information on this).
 4. "Cash Goal" strategy to focus on maximum cash goal for a month or quarter, which could mean focusing on the largest dollars regardless of age.
 5. "Delinquency Reduction" strategy which focuses on reducing the number of accounts past due aging buckets.
- E. Workflow. System rules establish workflow, as well as escalation to management, which will change according to the circumstances, age, number of collection calls, etc. A collection strategy can include (automatic) collection call reminders, system collection emails, letters, etc., all determined based on what the result of the last action was and a timetable. For example, if the customer made a promise to pay, the system should generate an email confirming it, and then set up an automated follow up on the appropriate day.
- F. Standard Documents Library. Not only can all collection documents can be standardized, and then customized if needed, but also automatically transmitted. Letter campaigns, for example, can be outsourced to mailing companies, without any manual intervention.
- G. Fully automated Communications, standard and customizable by email, letter, etc. for collections, credit, disputes, and PODs.

X. Strategy-Based Deduction Management / Chargeback Management

Customer deductions remain a complex, intractable problem causing revenue and profit dilution costing even mid market companies man-years of back office work and millions of dollars every year - depending on the industry up to 5-15% of revenues.

The broad deduction classifications are Trade Practices, which are largely unavoidable: Preventable that cover reasons under the supplier's control, and Customer Error. Technology has actually created a larger problem for many companies, since few are unable to comply perfectly with their major customers electronic data requirements.

Deduction processing is non-core, labor intensive but also very complex since deductions result from panoply of business problems and misunderstandings. Deduction resolution depends on the participation of the broader organization, including sales, distribution, finance, marketing, pricing, etc. Few companies track the true cost of this function, since it is dispersed among so many budgets, but those who do will be surprised at its magnitude.

Using a system for timely identification and validation of disputes and deductions, the process must include timetables, routing of collection problems and deductions, and management escalation for serious issues. Tracking of collections and deductions with a robust deduction system will provide valuable insight on gaps in compliance or service levels vis-a-vis customer expectations, particularly useful in identifying systemic, recurring problems.

- A. Customized rules and workflow assure that deductions are handled according to policy.
- B. Deduction Strategies and workflow to bring priority and focus where you want (these are just examples)
 - 1. "Category" Strategy, so trade promotion is handled differently than Product Shortages
 - 2. "Customer" Strategy, so your major account is handled differently than mom and pops.
 - 3. "Size" Strategy, so the large disputes get first attention, and the small ones combined into negotiation packages.
 - 4. "Historical Results Strategy", based on your history of being able to successfully recover monies.
- C. Root Cause Evaluation
 - 1. Customer deduction codes should automatically be converted to your codes for tracking, and measuring KPIs.
- D. Automated Data, Document Access. There should be automatic retrieval of deduction notices, debit memos, proofs of delivery. (See more below)
- E. Collaboration features will enable others in the organization to assist in resolution of the deductions

XI. Strategy-Based Cash Application

Many companies are still burdened with semi-manual cash application operations and initiation of customer deductions and often not completed within a one day cycle, rendering accounts receivable records inaccurate, and not balanced daily. In addition, manual application often results in posting errors which could be avoided by using a system with intelligent and customer-specific (special rules set for your biggest volume accounts) application rules. Even companies employing what they consider "sophisticated" cash application software often only achieve only a 40-60% hit rate. With the writer's system, close to 100% is possible today.

- A. Data is cleansed and normalized for matching.
- B. Conversion of customer deduction and remittance codes to your internal codes for root cause tracking.
- C. Customizable "intelligent" write-off thresholds that take into account the deduction type, probability of collection, size of transaction, customer, etc.
- D. Tracks and manages discounts according to your collection strategy and initiates workflow when appropriate. Assigns customer specific application rules.
- E. Processes data from multiple systems and all common payment sources (lockboxes, BAI, BAI2, EDI 820, MT940, Excel and CSV data, etc.)
- F. By using OCR, automatically extract remittance information from paper, pdfs, emails and image files.
- G. Provides close to 100% (yes, that is achievable) automated cash application, even on the most complex receivables, while automatically initiating deduction and dispute transactions.

XII. Account Reconciliation

In most companies, the Debit-Credit reconciliation process continues to be a time-consuming, expensive, manual process using Excel, and ineffective as well because with large accounts it is almost impossible to do a competent manual job without spending many days of input and manipulation.

- A. Debit - Credit Reconciliation without manual work or spreadsheets should be standard on all systems to produce a document that supports the amount owed you.
- B. SKU Level -The debit-credit "reconciliation" process tends to be largely manual and even when automated falls apart when it comes to reconciling returns, say, on a SKU level. The system should not only match the dollars, but by incorporating debit detail and receiving detail will also determine which SKUs were short and by how many, or mis-priced on the debit memo, and then automatically initiate the charge backs for the over-deduction.

XIII. Robotic Process Automation - A Best Practice for Capturing Customer and Partner System Data and Documents Automatically

No longer would your team members need to navigate to the many customer, shipper, and warehouse sites, then logon, search, download, cut, paste, and print Debit Memo's. All of this tiresome manual work is eliminated and your team can redirect its efforts to more important work.

Using Robotic Process Automation, you can connect with your Internal, Customer and Shipper Websites to extract, capture, translate, and distribute via smart workflow all the critical information needed to collect skipped invoices and resolve, reconcile, and recapture deductions, and accelerate collections, and do it without manual

The system will be able to access your major customers' web portals automatically, identifying skipped invoices and anticipating and downloading pre-deduction notices (so you can investigate and reconcile prior to the deduction), and downloading the debit memo.

We have first-hand experience with Robotic Process Automation, since we designed our Carixa OTC system to include this powerful function, called "Retriever™". It is an essential tool for doing business with "big box" mass merchandisers, web retailers, large corporates, and the government. Using Robotic Process Automation, the system *anticipates* the need and automatically and preemptively goes to your customer, shipper, and partner sites to download supporting documents, data and detail, and schedules it for resolution it in the accounts receivable workflow.

- A. EDI 812 data transmissions are converted into deduction documents and reporting.
- B. Proofs of Delivery are automatically downloaded when circumstance require, and inserted into workflow.
- C. Debit Memo documents downloaded and inserted into workflow.
- D. Skipped Invoices are identified prior to the remittance, initiating early collection contact and (automatically) obtaining and presenting proof of delivery.
- E. Pre-Deduction notices are accessed, downloaded and inserted into workflow so you can take advance action to investigate, counteract excessive or erroneous charges.

F. Scan, OCR and Convert paper documents to digital.

Reverse Robotic Process Automation. Interacting with Customer Portal Systems needs to work in “reverse” too. One example, even a “status code” changes evidencing a chargeback denial i can trigger a workflow to push timely and accurate claim denials to your customer’s system.

Robotic Data Capture For Accounts Receivable and Deduction Management

Features	Benefits
Access websites to retrieve documents and data 24 hours a day	Fully automated retrieval, added to your system workflow
Requests for documents triggered by an intelligent workflow	As soon a need is identified by a code or status change in the host, the retrieval process is initiated
Retrieve PODs when invoices go past due	Anticipate the POD, and use it to accelerate payment
Documents can be automatically attached to corresponding Invoices, Deductions or Contracts	Eliminates the need for manual indexing of documents
Text translation capabilities can convert EDI data to your internal formats	No need to purchase expensive EDI translation software
Retrieve advance customer payment detail	Solve “skipped” invoices before the payment is due with a Skipped Invoice Report
See what’s being paid when	Prepare a cash flow forecaster by identifying how much and what date a

	major account is paying with a “Cash Flow Forecast” report
Data extracted from web documents can be inserted into custom designed forms that can be distributed throughout your company for automated approvals.	Documentation is timely and consistent

XIV. Integrated Third Party and BPO Portal and Assignment

All companies today use outside specialists to assist with receivables, whether it be Collection Agencies for difficult debtors, or BPO Outsourcing (either offshore, or onshore like Creditek) to handle receivables management, collections or deductions.

The SaaS system should offer seamless work assignment/placement, controls, reporting and tracking of the outside service providers, as well as collaboration with internal personnel for problem and dispute resolution. It should significantly reduce the overhead expense associated with managing third party services.

In addition, the service provider could be charged with using the SaaS system, thereby creating a 360 degree ecosystem for managing receivables. Few third parties have software with the power of best-in-class SaaS Order-to-Cash Systems. Features should include:

- A. Automated account assignment and reassignment based on rules or exceptions
- B. Tracks and monitors all service provider performance vs. objectives and all KPIs
- C. Tracks account activity in detail and summary
- D. Monitors agency performance, and compares multiple service provider performance
- E. Eliminates off-system communication, decisions and documentation

F. Enables reconciliation of fees and commissions

XV. SaaS Order-to-Cash System Implementation

Many SaaS solutions require outside consultants. We believe that the SaaS provider should take responsibility for the implementation of the solution and customization for you, without expensive outside consultants. It should be implementable quickly with minimum work, so if a standard module requires six months to get up and running, you may be looking at the wrong system. A module can be implemented in as few as 30 days, with no consultants, and 90 days for the integrated Order-to-Cash suite.

- A. Implementation should not require consultants
- B. Implementation should be fast... weeks, not years
- C. Implementation should have a reasonable price tag

XVI. Impressive Return on SaaS Investment

Costs involved include a (i) one-time corporate license fee, (ii) an implementation and customization charge, (iii) annual per user fees, and (iv) an annual maintenance fee. If you are a large company, server storage charges may be extra depending on the amount of data, and in the rare case if you were to need a dedicated server, that would be extra.

Nevertheless, most SaaS systems are incredibly cheap compared to “enterprise” software or an in-house solutions.

Implementing the right SaaS Order-to-Cash platform should deliver an **impressive ROI as short as one year** after full implementation. A few examples: if you previously had a collection staff of 10, you may only need only 5 going forward; If you have a semi-automated cash application process, going to a 100% auto cash application will eliminate almost all overhead associated with it; if your DSO was higher than the benchmark, it will be lower, etc.

XVII. Conclusion

When you look the fundamentals, you could conclude that are only three "production" operations that drive most businesses. Everything else is support or administrative.

1. Product
2. Sales
3. Accounts Receivable Collections.

Manufacturing is already highly automated or going that way; in Sales the index card file has given way to modern CRM systems and purchase orders are now often by EDI. The last to get attention is Accounts Receivable, consisting of credit, collections, and deduction management, areas which heretofore have received little investment or, for that matter, management interest.

Something else to think about:

- “Offshoring” has not produced the anticipated benefits nor the operational quality and customer service needed by great companies, so many companies are rethinking the idea..
- We believe, today’s SaaS Order-to-Cash technology, combined with expert human capital, will result in operations quality, results and cost savings *far in excess* of offshoring labor arbitrage.

A SaaS system for Order-to-Cash is a solution to the need for efficiency combined with revenue cycle effectiveness, whether you are centralized, outsourced, or have global operations - delivering optimal cash flow and profit generation at the lowest cost.

Since adding people in lieu of adopting good technology is not a sound strategy for any company, it is time to adopt SaaS Order-to-Cash, as it has been proven to reduce overhead costs by automating low-value work, while delivering amazing improvement in performance and bottom-line results.

About the authors: This paper was prepared by the Revenue Cycle Consultants at Smyyth/Creditek

Smyyth/Creditek provides world-class, end-to-end Order-to-Cash SaaS Technology (Carixa), and Outsourced Services, to enable companies to attain extraordinary cash flow and profits using best practices for management of credit, accounts receivable, collections, deductions, disputes and cash application.

The Carixa™ Order to Cash platform streamlines operations, slashes costs, and increases profits. Smyyth technology and services are built on Six Sigma principles and are Safe Harbor and SSAE16 compliant. www.smyyth.com

Carixa is a modular or an end-to-end solution for order-to-cash and is scalable from mid-market to the global enterprise. It comes with instant consolidation of subsidiary credit risks and receivables, collection and deduction management providing local operating power within a corporate policy framework. Need to centralize, decentralize, shift resources, or outsource? No problem, just set the policy and rules and it's done. Carixa integrates order-to-cash....credit, collections, deductions, reconciliation, EIPP, cash application, customer portals, and more.

For more information on Carixa or Smyyth services, we would be delighted to hear from you. info@smyyth.com www.smyyth.com