Top 10 Best Practices in Order to Cash (OTC) Project Management

by: Chris Caparon, COO Cforia Software

The Credit Research Foundation (CRF) recently completed its "*Economic Projections Report for 2015*" and the results are consistent with Deloitte's annual "*Fourth Quarter 2014 CFO Signals Survey*" findings, recently reported in the Wall Street Journal.

The consensus directives coming from North American CFOs to their finance and accounting teams:*1)Ensure business performance by establishing new cost efficiencies, financial plans and analytical approaches; 2)Manage operating risk through risk management strategies and systems; 3)Manage balance sheet risk by strengthening balance sheets, ensuring liquidity and managing interest rate and foreign exchange exposure*

Not surprisingly, the CRF membership and order-to-cash (OTC) teams wield a great deal of sway over how most of these key 2015 CFO business objectives can be accomplished. Particularly "plans and analytic approaches", "strategies and systems" and specifically "strengthening balance sheets."

The challenge lies in dealing with projected business changes and the ever increasing departmental demands with flat or shrinking staff and more complex management requirements, while:*1)Reducing Days Beyond Term (DBT) and accelerating the conversion of receivables into cash; 2)Mitigating credit risk and portfolio roll-up of global client exposure; 3)Reducing write-offs and diminishing bad debt reserve requirement; 4)Shortening the discovery and resolution cycle times of client disputes and deductions; 5)Increasing Customer OTC lifecycle satisfaction and making it easier to do business with your company*

So the question invariably comes down to "Where do I start?"; "How will I identify best projects in order to support my CFO's goals and objectives?; "How will my team engage to realize fast time to value for a given project?"; and "What can I observe in my current OTC operation that has the potential to deliver a significant impact and a homerun for my team?"

This CRF article is Part 1 of a 5 Part Series focused on the Top 10 Best Practices in Order to cash Project Management. The findings in this article are a compilation of data points observed over fourteen years and 200 enterprise OTC implementations. These companies are managing over $240 billion in open Accounts Receivable (A/R) portfolios today and taking advantage of many of the best practices observed and described herein.

On Tuesday March 24, 2015, Chris Caparon, COO of Cforia, will present to the CRF Credit and Accounts Receivable Open Forum, in Tucson AZ. His topic, "***Best Practices in Project Management: "Project Selection - Fastest Time to Value"***. The CRF session objective, share "Top 10BestOTC Practices" of more than 200 OTC implementations successfully completed over the past 14 years of OTC project identification, definition, selection and successful implementation.

These OTC best practices involve a broad spectrum companies and industries, from USA only to global multi-nationals and with ranges in A/R portfolios sizes from less than $10M in A/R to well over $1B.

For OTC Project Focus area, Chris covered observable OTC ***Operational Activity*** which has the opportunity to realize ROI and fastest *time to value* for a department. He also covered ***Business Best Practices***, which CRF members could compare and contract with their own operations, to get a solid feel for where the improvement opportunity exists for them.

The Top Ten OTC areasare:1) Accounts Receivable (A/R)Collections Methodology; 2)Invoice Dispute and Deductions Resolution Handling; 3)Order Hold/Release Decisioning and Processing; 4)Application of Invoice Payments (Cash Application); 5)Lockbox Handling; 6)Generating Reports and Departmental Performance Analytics; 7)Billing Process Methods; 8)Multi-ERP Consolidation & Global Customer Management; 9)Credit Risk Management; 10)OTC Organizational Effectivity

Observations of common Accounts Receivable (A/R) Collections Methodology

What we have observed around Collections methodology is that on average only 50-60% of the accounts receivables portfolio is being touched within each 30 day order-to-cash (OTC) cycle. The collections methodology is primarily Call-Centric, which means that there is little automation within the process. This lack of automation leaves AR Departments working off of disparate, paper-driven processes.

We find a "Rainbow" of sticky note reminders about accounts, contacts, promises to pay, dunning reminders, high-touch or repetitive collections, credit or dispute action items. There tend to be lots of manual filing cabinets with literally thousands of well used, sometimes decades old (dog-eared) file folders. Teams might be working from printed aged trial balance sheets and creating collections and resolution notes in the margins of the report. Oftentimes there are many other manual, Excel, Access or other non-database driven prioritization of activities, which are not centralized and are specific to the work queue of the individual collector, resolver or credit analyst. With these decentralized, separate workflows in place, collaboration and overall A/R visibility is near impossible.

These environments tend to have little to no hierarchical account aggregation for midsized, large, chains and strategic accounts - no way to see the whole exposure of the parent-child portfolio. There are many Off-System/Manual Credit or Collections workflows and processes which have little consistency between individual resources, remote locations, or operational disciplines. A key element to converting receivables to cash are Promise-to-Pay (PTP) reminders, which are located in Lotus Notes, Outlook Calendars, spreadsheet or manual processes. This is a critical success factor to impacting working capital

Finally there tends to be little ability to separate receivables sub-ledgers to optimize the collections and disputes performance activity and collections/resolutions are "managed to the rule" rather than "managed to the exception". What this means is that virtually everything needs to be touched, versus segmenting the activity which can be automated to achieve 100% portfolio touches in each 30 day cycle and that there is simply no time (collections resource cycles) to address a large number of small transactions or client accounts.

Observations of "Best Practices" Accounts Receivable (A/R) Collections Methodology

Collections environments exhibiting "Best Practices" are those that can be characterized by the following characteristics: The teams have the ability to automatically segregate the receivables that are at risk based on sophisticated algorithms taking into account payment behavior patterns, historical performance, degradation of performance, credit bureau data and trade data which is blended and weighted. This optimizes collections, dispute resolution and credit resource effectivity based on activity and calling priorities. This needs to be an automated process so that when resources arrive, their day is planned and can be executed in a "best practice" methodology to minimize the time required to identify high-value daily targets and prepare for daily activity.

It is critically important not to settle or accept "Daily" or "Overnight" payment and orders updates from your software solutions. This results in your teams making unnecessary and unwelcome calls to clients who have just completed payments an hour ago or who have new orders in the queue that have just been placed that they need to be aware of in the decisioning. Your team needs near-time visibility into orders and payments to be most effective. They are doing this today, but they have to go into several systems to get the updated facts.

Second, the OTC teams need to be able to separate "Clean Receivables" from "Dirty Receivables" in order to quickly identify what should be worked. A "Clean Receivable" is one that has no disputes, deductions, short-pay. A "Clean Receivable" is due today and there is no identifiable reason that payment should not have been received.

Best practice environments use reporting, analytics, dashboards and automated workflows in order to streamline OTC sub-process and critical steps that deliver the biggest working cash impact. This is true of not only resource activity/productivity, but of automated communication and electronic calls-to-action to your clients.

Having links embedded in automated email messages, empowered with solutions like Client Portals for 7/24/365 Customer Self Service enables them to bet copies of invoices. In many environments this activity alone can represent 60%+ of client inbound call requests and call outreach-results of your collections team. Clients are also able to create custom statements, make disputes, request contact from a resolver or actually pay bills immediately while on-line through the link you have provided.

The average portfolio coverage for a collections team, is between 40% to 60% of all balance carrying accounts within a 30 day cycle. Best practices environments achieve a 100% portfolio coverage each 30 day cycle. This is only possible through combining effective workflow and automation. These companies use "Manual Free" customer touches via auto-generated email and fax communications. In addition automatic generation of optimized work queues, which are broken down by account segment, specified treatment methodology and worked by risk class and specialization of individual team member activity.

These environments use a single solution for managing all aspects of AR Collections, so they are not constantly flipping between separate systems which contain bits and pieces of the OTC lifecycle (No “Alt+Tab”). These teams have full visibility of the extended parent/child hierarchy for portfolio exposure, priority and work queues and prioritization PTP’s, which are automatically closed when payment is received.

These Accounts Receivable (A/R) Collections Methodology Best Practices yield on average a return on investment (ROI) of 10-25% reduction in Days Past Term (or DSO), 40-50% improvement in overall Portfolio coverage, 20-80% reduction of inbound call volumes regarding invoice related issues, 15-40% improvement in OTC resource productivity and have enabled these best practices teams to absorb significant sales volume growth rates, without having to add corresponding headcount.

About Cforia

Cforia (www.cforia.com) is a global enterprise software provider, delivering industry leading working capital and accounts receivable (AR) automation software. Over 200 enterprises are managing $240 billion in open A/R portfolios with Cforia today. Its fourteen years of success have been driven by superior technology integrated with proprietary real-time data integration tools across complex and disparate ERP systems. Cforia Collections Snapshot(SM), Credit Risk Analytics, Order Management, *Clean vs. Dirty* Receivables Tracking, multi-languages/currency, global Parent/Child risk roll-up and multi-business unit solutions are available in Hosted on On-Site delivery. The comprehensive Cforia software suite maximizes AR performance through a full software suite which includes OCR Auto Cash Application, Credit, Collections and Deductions Management Workbench, Electronic Billing and Online Payments and AR Collaboration Portal. Cforia's AR Automation empowers Finance Departments to independently manage their own electronic dunning correspondence, reports and credit and collections business logic, without relying on overburdened IT staff and external.

Key questions to discuss with your OTC team: Do you have a way of separating "Clean" from "Dirty" receivables within your portfolios?; What percentage of your team's current activity is paper based?; What percentage of your inbound client calls are about receiving copies of invoices or statements?; How long does it take you to adjudicate dispute or deductions claims?; How long does it take you to prepare for an internal or external audit?; How do you set calendar reminders for tracking your client's payment commitment?; Are you using DSO or DPT to measure payment terms compliance?; What percent of deductions discovery occurs 7-10 post payment term due date?; Do you have the tools to facilitate root-cause analytics in your order-to-cash cycles?; What percentages of your deductions are discretionary versus preventable?; Do you have any dedicated FTEs for Order Decisioning (review/release)?; How difficult is it for you to see the rolled-up parent-child exposure for a client?; Do you offer Clients a Self-Service Portal?; Do you specialize your credit, collections of dispute resolution teams?