Order-to-Cash: Unlocking Corporate Value

Ineffective order-to-cash processing make DSO levels soar and performance levels plummet. The older outstanding receivables become the more difficult they are to collect. The resulting ebb in cash flow decreases profitability and shakes shareholder confidence. Leading edge technology, service delivery models, and best practice can renew high performance hopes.

This paper examines the order-to-cash process, the symptoms of an inefficient process, and benefits that can be achieved from improving the process. It also identifies best practices related to processes, technologies, performance measurement, and service delivery models.

A world-class order-to-cash process distinguishes high performing companies. However, the order-to-cash process is frequently neglected despite its strategic importance and the increased use of shareholder value performance measurement techniques. Surveys suggest order-to-cash performance could be improved at many companies. As Paul French, executive chairman of Equitant, states: “Accounts receivables are often where customer problems go to die, through incorrect billing or bad fulfillment.”

Symptoms of an Ineffective Order-to-Cash Process

An ineffective order-to-cash process is symptomatic of poor cross-functional integration. For example, ineffective receivables management can be identified through higher-than-expected days sales outstanding (DSO). Process failures can occur at any of the several points within the order-to-cash process and can be summarized by:

- High order-taking error rates
- High order fulfillment error rates
- Customers unable or unwilling to pay to terms (the “can’t and won’t pays”)
- Inefficient and ineffective collection processes
- Inadequate customer query management resolution processes

Benefits From Order-to-Cash Process Improvement

There are numerous benefits from improving the order-to-cash process. These benefits are especially important to low margin or investment intensive companies. An efficient order-to-cash process allows companies to:

- Invest capital in higher value added activities since excess outstanding receivables have a minimal return on capital invested.
- Reduce the level of external financing required. This improves profitability by lowering debt interest payments and by reducing the level of external financing required as a company’s debt-equity ratio improves. This can result in an improved credit rating, which in itself can lead to lower financing charges. For every $1 billion of revenue, reducing DSO by one day can reduce borrowings and financing charges by $4 million and $240,000 respectively.
- Decrease the administrative effort and cost required to manage the collection process.
- Increase collections by decreasing DSO. Generally,
older receivables are more difficult to collect, and the longer receivables remain unpaid, the higher the risk of a customer being unable to pay.

**Best Practices in Processes and Technology**

Best practices utilize existing and emerging technologies to automate and integrate the order-to-cash process. An automated and integrated process reduces the potential for error associated with manual processing and manual information transfer.

**ERP Solutions**

Integrated ERP solutions, such as SAP, Oracle, and PeopleSoft, facilitate automated data transfer across the functional areas in the order-to-cash process. For example, in an integrated ERP solution, orders from customers automatically create fulfillment and distribution scheduling based on the customer’s order requirements. Once products are distributed, customer bills are automatically generated based on customer data (price, invoice address, etc.) and the general ledger is updated. This integrated processing reduces the potential for errors to occur when transferring information across functional boundaries.

However, ERP solutions do not manage customer risk, resolve potential errors that can occur in customer order processing, or manage cash collection and allocation after customer billing. Technologies and software solutions are emerging to manage these process gaps.

**Credit Management**

External customer data can be integrated in an ERP system to improve credit/risk management. A company can provide a customer list to D&B, which will email the company with new customer information as it becomes public knowledge. Information may include newly filed accounts, customer press releases, court judgments, or a change in payment profiles. These credit management services can help companies manage customer credit risk by forewarning about deterioration in a customer’s financial position. Then, companies can manage credit risk by reducing the overall credit offered to a customer or by requiring a bank or parent company (if appropriate) guarantees for any credit offered.

**Order Processing**

E-ordering solutions can accelerate the order process, reduce customer internal order processing errors, and decrease administrative costs by eliminating manual processing necessary to transfer customer order requirements into internal order processing systems. Electronic data interchange (EDI) technology can manage one-to-one relationships with larger customers, or customers can use self-service ordering portals/extranets to place orders. Orders are then automatically uploaded into an ERP system. Web-enabled ordering solutions can also be configured to allow customers to maintain their own data, such as delivery address, sales tax numbers, etc.

**Billing**

Companies can also bill customers using EDI technology. This enables customers to upload billing data into their own systems for automated invoice processing and payment. Benefits from this best practice include cost savings related to printing and posting billing invoices to customers, faster invoice delivery to customers, and decreased risk of processing errors by the customer, resulting in more invoices being paid correctly and on time.

The National Association of Credit Management (NACM) believes that EDI technology will become more pervasive. Currently, only the largest corporations have realized significant economies of scale through EDI initiatives due to the implementation...
technologies (e.g., IXOS) are beginning to automate payment processing. In addition, advances in optical character recognition (OCR) and magnetic ink character recognition (MICR) technologies create an automatic electronic upload to a company's financial ledgers from a scanned paper-based remittance advice.

Outstanding Receivables Collections Management
Cash collection personnel or their supervisors traditionally identify their activities (determine customers to call, queries to resolve, nonpayments to prioritize, etc.). The prioritization of the activities is often unsystematic and suboptimal. Companies such as i-many and Get Paid offer automated receivables management workflow tools to systematically prioritize collection personnel’s workload, prepare and record customer contacts, and automate customer query management. The benefits of these workflow management tools include:

- Improved business process efficiency by automating manual mundane activities.
- Increased direct customer contact leading to higher collection rates and lower overdue balances.
- Improved customer satisfaction and retention by tracking and resolving disputes more quickly.
- Improved relationships, retention, and profitability from proactively communicating with key customers.
- Maximized utilization of the inquiry-handling and receivables-collection teams’ time by focusing their efforts on the right accounts at the right time.
- Decreased costs by enabling customers to access their accounts via the Internet.
- Improved integration where multiple back-office systems currently exist.

CASE STUDY:
Over the last several years, Cisco developed a variety of network-based self-service applications that enabled it to interact more effectively with its customers. Customers can use a Web-based application to price, configure, validate, and order products. They can also get copies of invoices, review shipping schedules, and receive notifications of shipments or changes. The application is linked to centralized internal systems that coordinate the entire supply chain. Now, Cisco receives more than 50 percent of its product orders via the Internet – more than $10 million a day. As a result, Cisco lowered its cost of doing business by more than $560 million per year, while growing at an annual rate of 400 percent for the past five years.

Source: www.cisco.com
Measuring the performance changes in each KPI over time using statistical process control techniques (Figure 4).

Example KPIs for each step in the order-to-cash process are:

- **Receive Order** - Percent orders received electronically, percent customer calls taken on initial contact, percent order input errors.
- **Authorize Credit** - Percent bad debts, average credit approval cycle time.
- **Order Fulfillment** - Percent of perfect orders (i.e., percent of orders delivered to customers in full quantity at the specified time).
- **Invoice Customer** - Percent invoice accuracy (i.e., the accuracy of invoice production as determined by the proportion of invoices with invoice errors relative to the total number of invoices raised), percent invoices requiring manual intervention, percent invoices issued electronically.
- **Cash Collection** - Percent cash collected within agreed credit terms (excluding invoices subject to customer query), percent cash collected electronically.

These KPIs can be augmented by overall cross process KPIs, such as DSO and total process throughput time.

### Outsourcing Elements of Order-to-Cash

Outsourcing elements of the order-to-cash process is well-established for invoice printing and posting and the sale of receivables to third parties through debt factoring. However, the best practice initiatives identified in this paper can require significant capital investment. Consequently, outsourcing back-office activities like receivables management provides an investment in and focus on the process that would otherwise be difficult for capital- or management-constrained companies to justify.

Rebecca Scholl of Gartner predicts outsourcing of receivables management will grow faster than the overall F&A BPO market, which itself is expected to grow from $14.5 billion in 2000 to $38.9 billion in 2004. Microsoft, an early adopter of receivables outsourcing, has improved the percentage of total receivables that are current from 65 to 80 percent in 1995 to 95 percent today.

### Conclusion

Although the order-to-cash process is often overlooked, there are many improvement opportunities. ERP solutions automate the order-to-cash process and decrease manual effort. Emerging technologies, such as credit management solutions, order management solutions, EDI, EBPP, and automated receivables management, also can significantly improve components of the order-to-cash process. Instead of using DSO to measure the overall order-to-cash process, a best practice is to use specific KPIs to measure each step in the process. Another emerging best practice is to outsource receivables management. By adapting these best practices, companies can decrease costs, improve their credit rating, and focus efforts on more value-added activities.

### Endnotes

2. Ibid.