



As per an industry report, for every \$1B in revenue, working capital optimization can result in \$20-60M annual benefit¹



Working capital optimization is a sweet spot for CFO's, as it determines the financial health and operational success of the business. Organizations today are looking for end to end solutions around all the levers impacting working capital and are talking about overall processes rather than just payables, receivables, and inventory. OTC—order to cash process has replaced accounts receivable. Companies are looking for solutions to move beyond just cost savings to a more strategic impact, and an integrated system is the answer.

Abstract

Working capital is one of the most important components of the financial operation of a company. Organizations need to explore more efficient ways to manage the levers of working capital, i.e., accounts receivable, accounts payables and inventory. To manage these levers, we need to look at the overall picture rather than just focusing on receivables and payables.

In this whitepaper, we are going to focus on order to cash (OTC), as it is one of the important strategic components that can be used—not just to improve the organizations profitability, but also to better manage the working capital and customer services for future growth.

With growing business and customer expectations, organizations must go into expert mode and transform their order to cash process using the advance technology and analytical solutions available.

This paper discusses a step-wise solution that can help organizations transform their accounts receivable process into a smart order to cash process. A detailed analysis of various subprocesses within the OTC process—and possible technological and AIML (Artificial Intelligence and Machine Learning) interventions—forms the base of the solution. Artificial intelligence (AI) engines can be built to scan through the invoice details, customer e-mails, contracts, and other unstructured data and significantly reduce the manual effort while improving the execution time for collections, deductions, dispute resolutions, shorts payments, cash posting, etc. Many organizations have explored similar solutions, though only in parts. An end to end approach, starting from order processing to cash application and performance reporting, is the answer.



Reducing the cash conversion cycle can improve EBITDA margins and significantly increase profitability—by as much as 20%, in some cases².

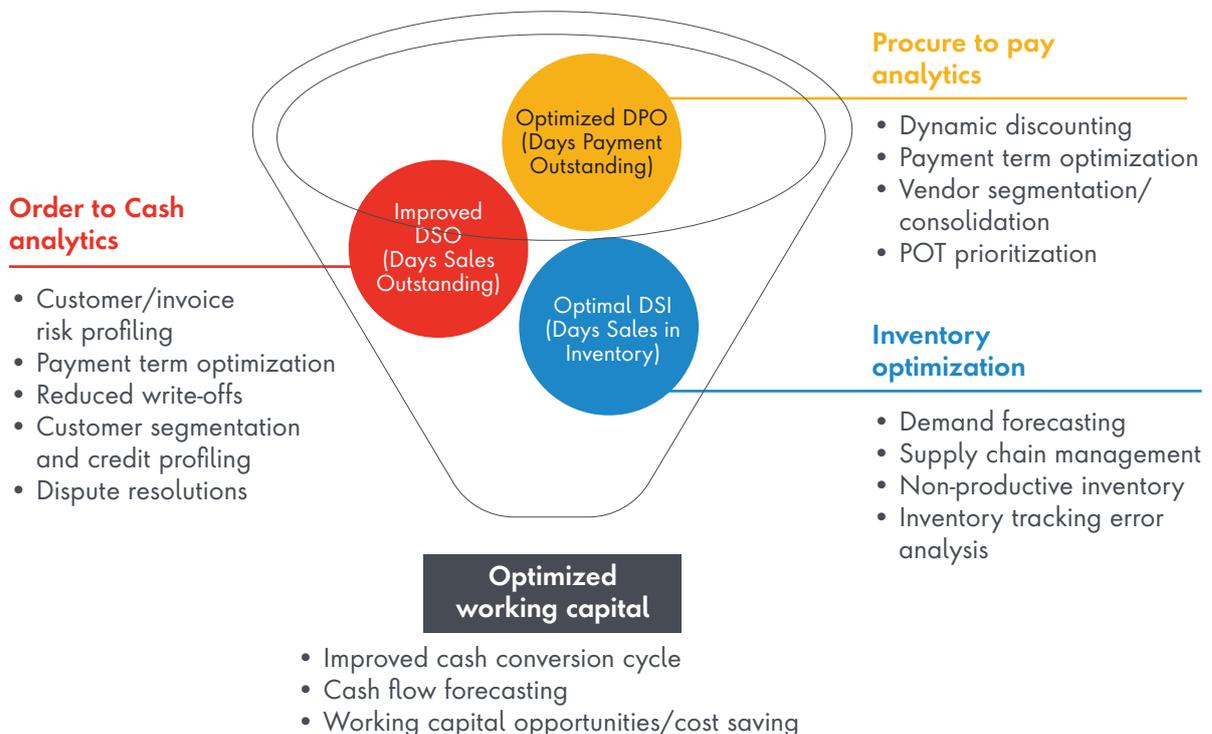
Challenges in OTC

Today across industries, we see the cash-to-cash cycle—from procurement to receipt of payments from customers—exceeding six months, which means companies have already made payments for the raw materials and services but haven’t sold the product yet.

To address this issue around working capital, we need to understand each component of working capital, how they interact with each other, and how advanced analytics can be used to enhance the output of each of these levers for an optimal working capital.

Most organizations have accounts receivable, accounts payables, and inventory working in silos. If we go within these processes, there is a lot of system dependencies, and not much importance is given to the interactions within the subprocesses. Figure 1 below explains the dynamics of AP, AR and inventory in the overall working capital optimization.

Figure 1 - Working capital optimization and roles of the key levers



We'll discuss in detail how accounts receivable is moving towards OTC and what challenges we see across the value chain.

An analysis by PWC in the year 2016 suggests that ~1.1 trillion Euro is locked up in working capital and this is increasing³.

The biggest challenge that we see across the order to cash process is customer experience and a lack of visibility across the entire OTC process. OTC is one of the most important processes in the entire business cycle, as without this companies won't make any money. However, system dependencies and the business silos of various departments involved make it highly manual and challenging. For most companies, a huge amount of transaction data available is not being used for any intelligence. Almost one-fourth of the effort goes into collecting payments from on-time payers, and an equal amount of time is spent in resolving disputes that could have been easily avoided.

Let's have a look at the system dependencies:

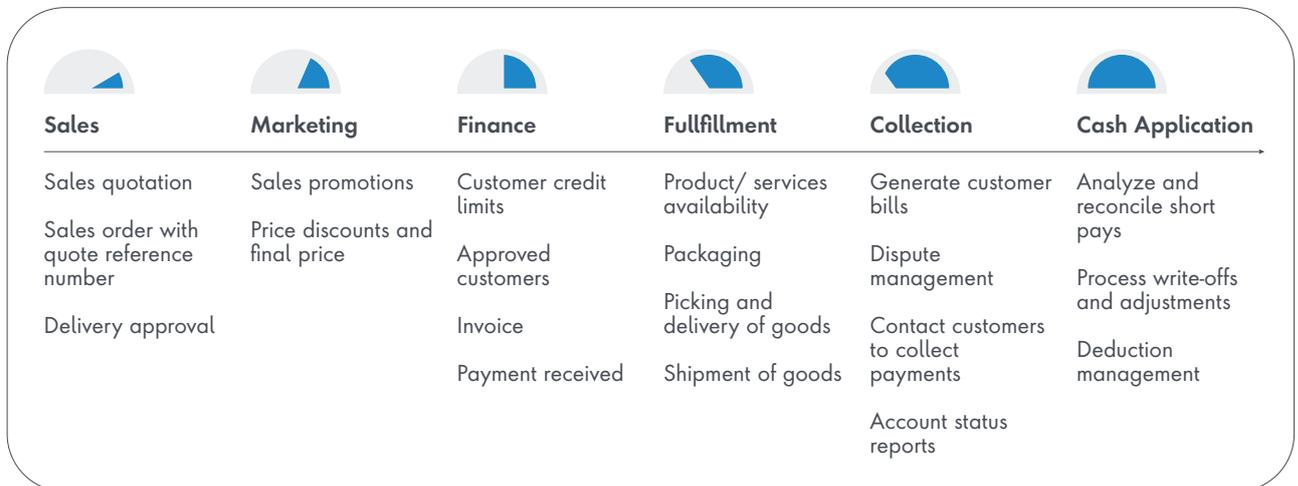


Figure 2 - OTC interactions among the various departments

According to ordertocash.net, ~30% of account department costs goes towards managing the OTC process. If not managed properly, OTC can cost 6-25% of revenue⁴.

The other pitfalls of the process include inconsistent data and documents, duplicates, incorrections, reactive measures, unclear deduction rules, and inefficient customer contacts.

One of the key problem areas is collections, where most often the account/customer prioritization for customer contacts, calls, dispute tickets, and resolutions are performed manually and, as a result, are suboptimal and expensive. All of these can be automated through RPA and cognitive automation.

A reduction of one day in DSO for a \$10B company reduces WC by around \$30M⁵.



The OTC solution: going beyond efficiency

The solution to the above problems is to go beyond efficiency to effectiveness of various subprocesses under OTC—to deliver better cost, cash, and improve upon DSO (days sales outstanding) and customer satisfaction levels to build the long-term relationship. DSO (days sales outstanding), APT (average payment term), and WAPT (weighted average payment term) are the most important metrics to use when measuring the health of OTC for any organization. An improved DSO reduces the overall cycle time of collection and significantly improves working capital health.

The key to the overall solution is to connect business silos through upstream and downstream interlinkages and use advanced analytical techniques to drive focused customer contacts, proactive collection strategies, and a smart auto cash posting system. Also, rather than working on discrete portions of the process or exploring a complete technology overhaul, a more effective solution is to integrate all the systems to a single platform to form input links at various process stages.

We are suggesting a step-wise approach to gradually move from the current state to a more cutting-edge state as an industry leader in OTC practices.

Below is a snapshot of multiple subprocesses and dependencies on various other departments:

- 1. Order processing:** The OTC process starts with sales order processing with high volume and complex orders. The order processing demands instant access to delivery docs and related customer and order details.
- 2. Billing:** Billing starts post product/service delivery to customers. It has its own issues that arise due to incorrections, information breakage from deliver point, and lack of customer interaction information.
- 3. Terms:** Payment terms are not clearly defined and followed. Non-standard payment terms and variation across divisions, business segments, etc., make it difficult to follow and optimize.
- 4. Collection:** Collection is a process of contacting customers and getting the dues cleared. This requires solving a lot of customer queries, and the people involved



should have smooth information flow from various departments involved. Typically, collections agents wait for invoices to go delinquent to start acting.

- 5. Dispute resolutions:** Disputes arise for multiple reasons, such as incorrect billing details, discounts, goods return, etc. Once an invoice falls into dispute, the cycle time to resolve it is long and delays the collection process. A systematic information flow from the order processing unit, and measures to reduce inaccuracies at each step, can help significantly reduce the number of disputed invoices.
- 6. Cash application:** This is the most manual process in the collection cycle, where once the payment is received from the customers, and remittance information around the same is shared by banks, agents map this remittance data with invoice details.
- 7. Analytics:** Here, relevant information is shared with the leadership team, and insights are provided for proactive actions. Measuring the process performance and identifying the gaps for improvement is necessary to move towards a smarter and effective order to cash system.

It is important to note that the root cause of overdues and collection issues is outside of the OTC process. So, it's essential to understand the interdependencies.

Let's have a look at the various subprocesses and the issues organizations face within these subprocesses, as well as what KPIs to measure to analyze the health of these processes. This helps us identify various possible technology and AIML interventions across the OTC value chain.

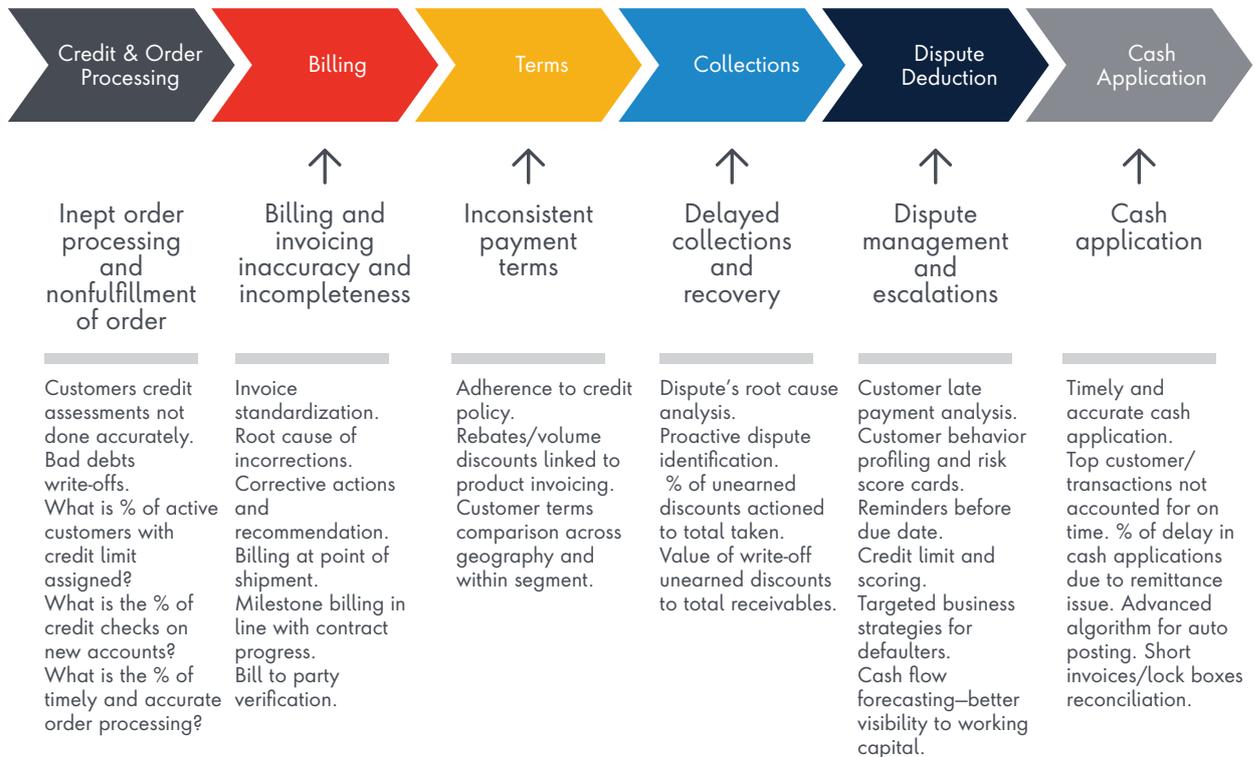


Figure 3 - Approach model: opportunities analysis across accounts receivable process

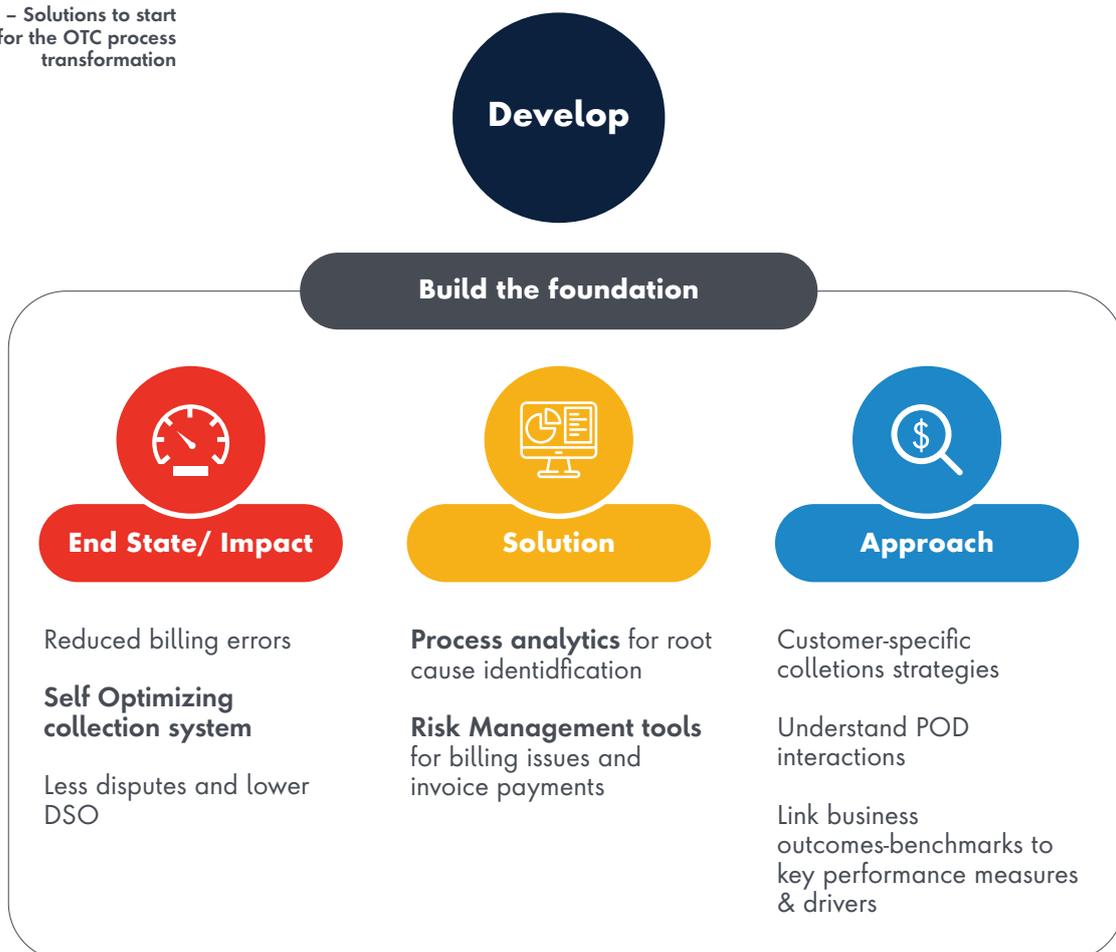


As it is mentioned above, OTC starts with order processing and, if not handled properly, it impacts all the downstream processes, impacting DSO or on-time collection and reconciliation. Based on experience with various organizations across industries, it's seen that sales data, customer master, price promotion information, and point of delivery information are not integrated properly and leads to billing/invoice incorrections and a long lag time to correct these incorrections. These incorrections also result in a high number of customer disputes and a negative impact on long-run relationships.

To transform accounts receivable to a smart order to cash process, we start by studying all the manual interactions and automatic data flow. This will help us identify the information leakages and process loopholes.

Developing a Risk Management Tool to understand the impact of the root causes and taking corrective actions is an effective way to start. Also, providing a web application for the delivery people and sales team that works in both online and offline mode to collect all customer interaction information is a must for this solution. Regular performance measurement and benchmarking of the implemented solution helps in identifying and filling in the gaps.

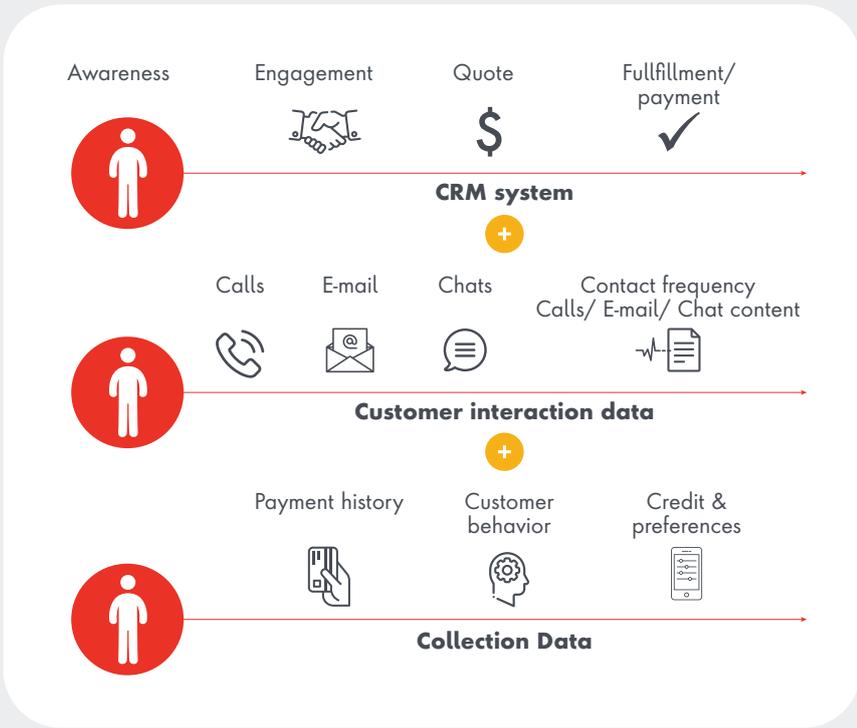
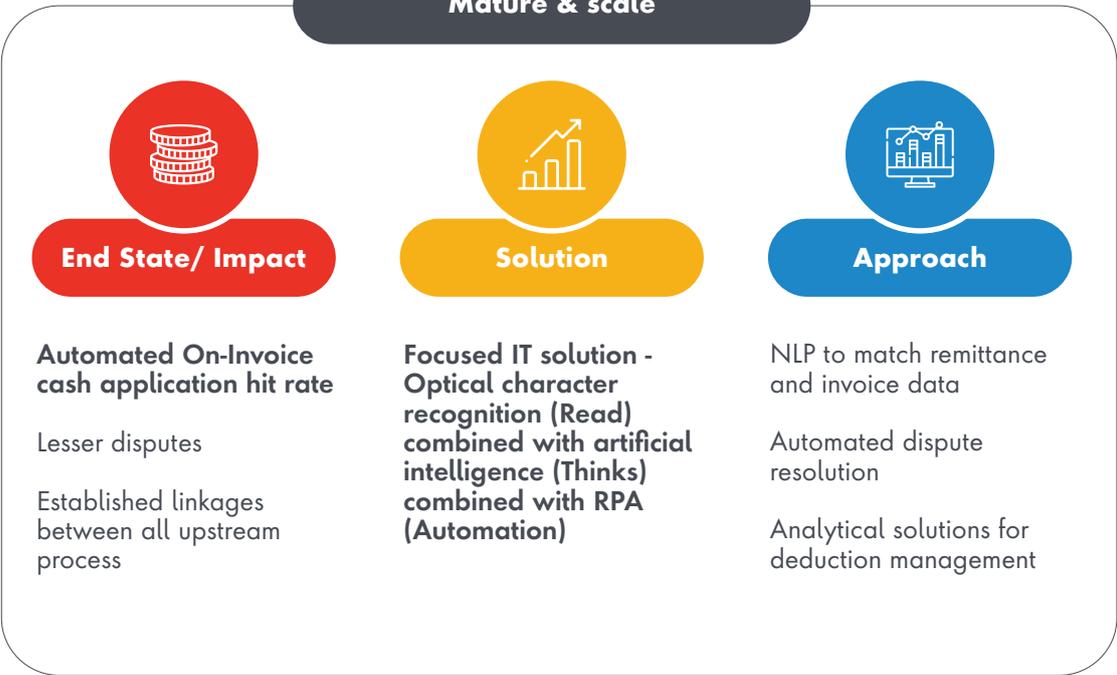
OTC – Solutions to start with for the OTC process transformation



OTC – Solutions to move to the advanced stage

Advanced

Mature & scale



The develop phase, once taken care of, will help streamline all the downstream processes, from collection to dispute resolution, and finally, to cash reconciliation.

This stage specifically focuses on smart collection strategies and a high hit rate of auto cash posting using AIML techniques.

Smart Collection: Key drivers of customer behavior and invoice level risk profiling.

Automated On-Invoice Cash Application Hit Rate: A combination of OCR, AI, and RPA for auto cash posting, where we have all invoice rules and deductions rules in one place.



OTC – Solutions to become an industry leader



Optimize & Expand



End State/ Impact

World class **DSO**
Reduced revenue dilution across the process flow



Solution

Integrated system - customer master to order management to cash app and deduction management



Approach

Establish upstream and downstream linkages across all cross functions

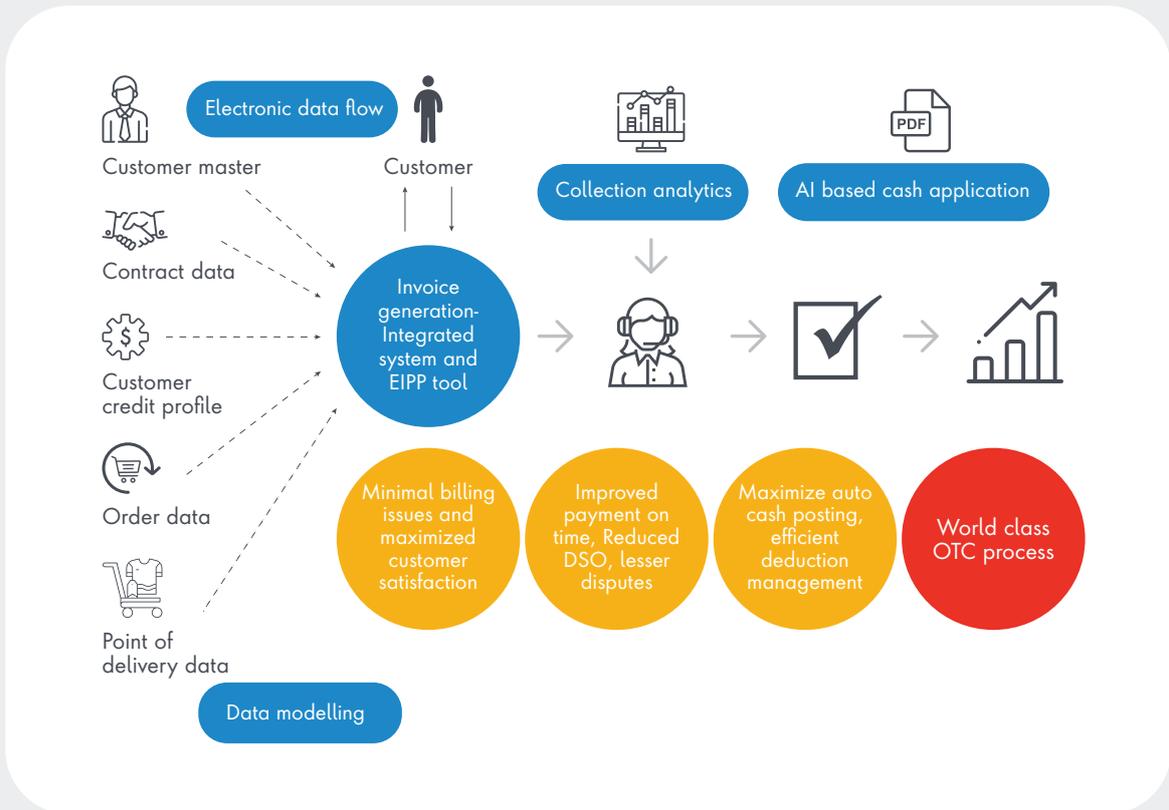
EIPP - Electronic invoice presentment and payment tool to self serve invoice retrieval and payment

This helps automate and transform the process into a smart OTC process with smooth data flow at each touchpoint and advanced visualization solutions for alerts and insights for proactive decision making.

A dynamic management dashboard helps to measure the health of the process and take data-backed actions in any pain area. This includes:

- Monitoring collection performance
- Identifying the most frequently occurring issue





To be a world-class leader in the OTC process, organizations must leverage the technological solutions available. Having a completely integrated system from customer master to final cash application is the key to this solution. There shouldn't be any lag in the information flow, and RPA can help by eliminating all the manual efforts needed in fixing the billing errors, resolving customer disputes, and looking for supporting data for cash application.



Benefits of the overall solution

The overall solution can help organizations better manage their working capital and significantly improve DSO at a much lower operations cost. An overall OTC solution can enable:

- 1. Working capital optimization:** OTC being the most significant lever of working capital management systems, if managed smoothly can help companies manage their working capital in the most efficient way.
- 2. Reduced DSO:** The overall solution significantly reduces the number of days-to-pay/days-sales-outstanding. With reduced manual interventions, targeted customer contact approaches, and quick access to information, a significant amount of payments can be collected on time, and the energy can be diverted towards risky invoices and customers.
- 3. Improved service levels:** Fewer disputes and better dispute resolution in the shortest possible time strengthens customer relationships. With customer behavior understanding and alerts on likely payment defaults, businesses can initiate strategic partner discussions in advance to reduce the risk of payment defaults.
- 4. Improved cash flow:** Reduced revenue leakage, lower write-offs, intelligent ways to connect with customers, and smart collection all lead to improving on-time payments and visibly reducing write-offs. AI can be used to identify and validate the short pays, deductions, and charge backs. With all information available at hand, companies can rework their payment terms and considerably lower the >90/120-day transactions.
- 5. Visibility to cash position/working capital in real-time:** A visibility into customer payment behavior and invoice risk profiling gives a clear look at future payment trends, and companies can manage their expenses and working capital requirement accordingly.
- 6. Improved productivity and reduced operations cost:** As order to cash is mostly a manual process and consumes the highest share of cost in the finance department, the cognitive automations reduce the man hours needed to complete any task. Also, with quick access to information, the lag/wait time is minimal, which improves the productivity of people managing the OTC process. They can now focus more on analyzing and deep diving the process performance and issues.
- 7. Improved auto cash posting:** With all the invoice details and deductions rules in one place, and pre-built algorithms to match short pays, auto cash applications can be improved up to >90%, which would significantly reduce the effort needed to reconcile the invoice details and remittance data.
- 8. Alerts and role-based actionable insights using role-based visualization techniques:** This helps in being proactive and taking necessary actions before the actual damage hits. The complexities around the subprocesses, customer disputes, short payments, lock boxes, payment terms, etc., can be very well understood and managed through a single reporting system with automated alerts and narration, customized reports, and real-time insights within seconds.





The call to action

For multiple client engagements, these solutions have delivered historic and positive business impacts, reducing the payment cycle time and improving the overall process effectiveness. With everyone leveraging the current technology trends and advancements in machine learning and artificial intelligence, this is the time when organizations should move away from a typically manual and inefficient order to cash cycle. Now is the time to create a system that breaks silos and allows for the smooth movement of information across subprocesses. Technology is an enabler for the same, and with millions of rows of data, the available information can be easily transformed into intelligence to make a smart OTC process.



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