Aberdeen *Group*

The Order-to-Cash Cycle

Enhancing Performance with Process Automation

July 2011

Scott Pezza

Aberdeen *Group*
A Harte-Hanks Company

Executive Summary

For most organizations, accounts receivable is one of the largest assets on the balance sheet. So how can they efficiently convert this asset to cash, while minimizing bad debt expense? Based on the responses of 140 professionals gathered in May and June of 2011, this study investigates the question directly by investigating the possibilities of asset to cash conversion performance, while uncovering the best practices employed by top-performing organizations that can effectively manage their order-to-cash cycles.

Research Benchmark

Aberdeen's Research Benchmarks provide an in-depth and comprehensive look into process, procedure, methodologies, and technologies with best practice identification and actionable recommendations

Best-in-Class Performance

Aberdeen used the following three key performance criteria to distinguish Best-in-Class companies:

- Accounts receivable past due 71% lower than all others

- Payment time to clear the A/R ledger 80% faster than all others

- Invoice volumes requiring manual intervention 70% lower than all others

Competitive Maturity Assessment

Survey results show that the firms enjoying Best-in-Class performance shared several common characteristics, including:

- Automating major steps in the order-to-cash process 2.9-times as often as all others

- Triggering alerts based on process or performance exceptions 2.3-times as often as all others

- Eliminating data entry by integrating credit, order entry, billing and collections 1.9-times as often as all others

Required Actions

In addition to the specific recommendations in Chapter Three of this report, to achieve Best-in-Class performance, companies must:

- Recognize the difference between collections and deductions / disputes, and tailor their communications approach accordingly

- Standardize credit and collection activities by defining business rules, following a common workflow, and utilizing technology (where necessary) to ensure processes are being completed efficiently

- Enhance inter-departmental collaboration to ensure that those responsible for credit, sales, fulfillment, and collections all have visibility to the information necessary for minimizing bad debts while maintaining a high quality of customer service

How Does Your Performance Compare to the Best-in-Class?

- Compare your processes

- Receive a free, personal PDF scorecard

- Benefit from custom recommendations to improve your performance, based on the research

Take the Assessment

Receive Your Free Scorecard

![Aberdeen Group - A Harte-Hanks Company]

Table of Contents

Figures

Tables

Aberdeen *Group*
A Harte-Hanks Company

Chapter One:
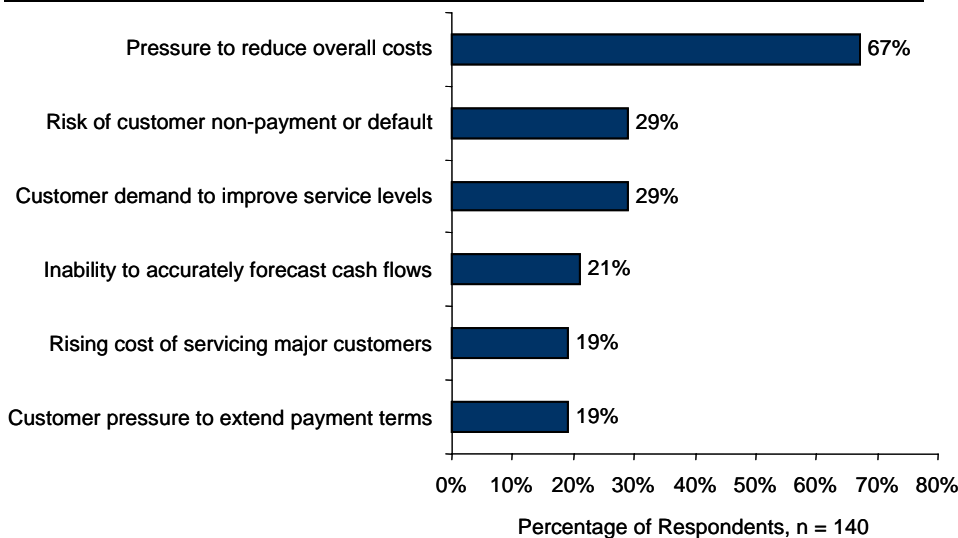# Benchmarking the Best-in-Class

Business Context

From the financial supply chain perspective, the goal of the order-to-cash cycle is simple: to translate successful sales into actual financial benefit for the organization. To do this, we look to credit policies for risk mitigation before an order is taken, to invoice automation to provide for timely and accurate statement of amounts owed by customers, and to collections and dispute resolution to ensure that incoming cash flows are both on-time and predictable. Of course, the desire for effective operations does not remove the expectation that they will also be efficient. This is evident in the continued influence cost-reduction exerts over operational decisions in the enterprise.

Although the economic environment has shown signs of improvement, the enterprise focus on cost reduction remains strong (Figure 1). Its prominent place among the pressures driving companies to focus on improving their order-to-cash cycles helps to emphasize the critical role that operational costs play in the greater liquidity discussion: transactions between trading partners certainly play a large part in the cash flow discussion, but inflated labor costs due to inefficient processes hit the bottom-line as well.

Fast Facts
√ **49%** of invoices are sent electronically
√ **8.5%** of invoices are subject to disputes or deductions

Figure 1: Pressures Driving Focus on Order-to-Cash Improvement

Pressure to reduce overall costs — 67%
Risk of customer non-payment or default — 29%
Customer demand to improve service levels — 29%
Inability to accurately forecast cash flows — 21%
Rising cost of servicing major customers — 19%
Customer pressure to extend payment terms — 19%

Percentage of Respondents, n = 140

Source: Aberdeen Group, June 2011

An efficiency-related pressure may sit at the top of list, but those that follow present a picture of the many aspects of effectiveness that are weighing on executives' minds. Companies lack visibility into their customers' financial health, questioning whether they'll be able to make good on their purchases. Even for those payments that will be received, the timing of those receipts

Aberdeen Group
A Harte-Hanks Company

remains unknown. Completing the picture, effective customer service (timely fulfillment, accurate invoicing, and responsive dispute resolution) must also balance collections with relationship management, ensuring that those customers who *can* make timely payment are given the opportunity to do so in future sales.

The Maturity Class Framework

Aberdeen used three key performance criteria to distinguish the Best-in-Class from Industry Average and Laggard organizations. These measures aim to capture success in four main segments of the order-to-cash cycle: order management and invoicing (manual intervention), collections (A/R past due), and cash application (payment clearance).

Table 1: Top Performers Earn Best-in-Class Status

Definition of Maturity Class	Mean Class Performance
Best-in-Class: **Top 20%** of aggregate performance scorers	▪ 3.3% of A/R past due ▪ 1.3 days for payments to clear A/R ledger ▪ 16.2% of invoices require manual intervention
Industry Average: **Middle 50%** of aggregate performance scorers	▪ 8.6% of A/R past due ▪ 4.1 days for payments to clear A/R ledger ▪ 44.9% of invoices require manual intervention
Laggard: **Bottom 30%** of aggregate performance scorers	▪ 16.1% of A/R past due ▪ 11.7 days for payments to clear A/R ledger ▪ 79.9% of invoices require manual intervention

Source: Aberdeen Group, June 2011

The Best-in-Class PACE Model

Delivering on the promise of an efficient and effective order-to-cash cycle requires a combination of strategic actions, organizational capabilities, and enabling technologies that can be summarized as follows:

- Standardization of processes and systems to remove manual work, drive faster and more accurate results, and improve visibility

- On-going communications with colleagues, business partners and customers to guarantee that the necessary information is available to all parties involved in a transaction

- Continuous monitoring of performance and use of root-cause analysis to identify, document, and remedy deficiencies

Aberdeen *Group*
A Harte-Hanks Company

Table 2: The Best-in-Class PACE Framework

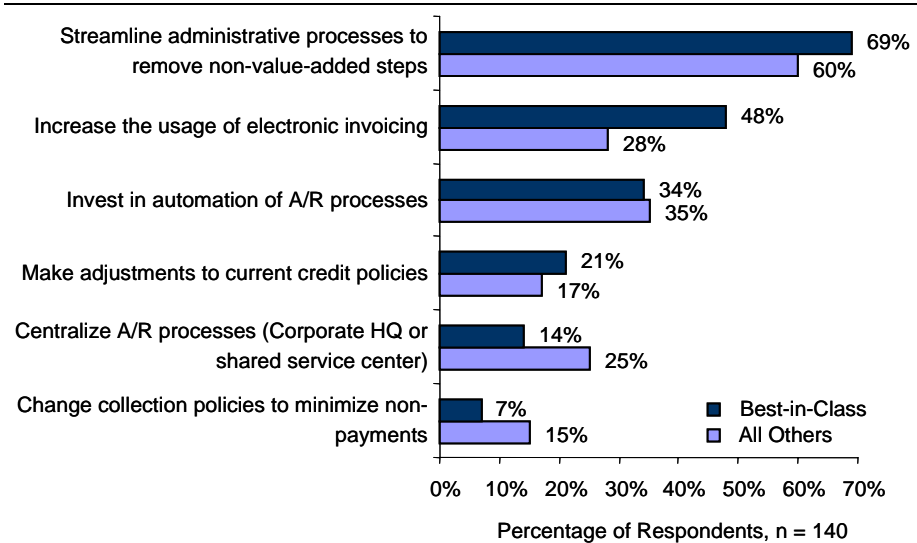| Pressures	Actions	Capabilities	Enablers
▪ Pressure to reduce overall costs	▪ Streamline administrative processes to remove non-value-added steps ▪ Increase the usage of electronic invoicing	▪ Real-time visibility into outstanding invoice volumes and status ▪ Billing and collections are integrated with order entry and credit with no duplicate data entry ▪ Major process steps are automated and only require minimal manual intervention in case of exceptions ▪ Collaboration between Finance, Credit, and Sales to optimize sales based on collectibility ▪ Standardized enterprise-wide procedures for quotation and order management	▪ Electronic invoicing ▪ Integrated order entry, procurement, planning and fulfillment, and financial management ▪ Electronic workflow automation ▪ Business Intelligence and analytics ▪ Performance dashboards ▪ Customer self-service portal

Source: Aberdeen Group, June 2011

Best-in-Class Strategies

The aforementioned pressures are only a starting point. They provide a context, but the real question is: what are companies going to do about them? As illustrated in Figure 2, approaches can vary based on a company's maturity. The Best-in-Class may already be achieving superior results, but that does not prevent them from focusing on streamlining processes to continue to drive down costs. As demonstrated, streamlining processes bridges across maturity classes, but Best-in-Class organizations are able to apply this strategy more effectively to produce results, as will be discussed later in this chapter. Moreover, process improvement lays a solid foundation upon which technology implementations can rest, whether that be in the form of automation and workflows, or with the introduction/expansion of electronic invoicing – the second and third most cited strategies by current respondents. As one finance manager noted, without cleaning up the process first, companies can be doomed to simply "make the same mistakes at the speed of light." But once that foundation has been laid, the opportunity is available for automation to deliver its true potential.

"When it comes to A/R, the biggest issue is making sure we get the cash in the door when we're supposed to, as fast as we can. However, it is important for us to make this as customer-friendly as possible. It is really important to us to be sure we don't do any damage to our customer relationships through AR collections."

~ CFO
North American energy
technology company

Aberdeen Group
A Harte-Hanks Company

Figure 2: Strategies to Counter Current Pressures

Streamline administrative processes to remove non-value-added steps — 69% (Best-in-Class), 60% (All Others)
Increase the usage of electronic invoicing — 48% (Best-in-Class), 28% (All Others)
Invest in automation of A/R processes — 34% (Best-in-Class), 35% (All Others)
Make adjustments to current credit policies — 21% (Best-in-Class), 17% (All Others)
Centralize A/R processes (Corporate HQ or shared service center) — 14% (Best-in-Class), 25% (All Others)
Change collection policies to minimize non-payments — 7% (Best-in-Class), 15% (All Others)

Percentage of Respondents, n = 140

Source: Aberdeen Group, June 2011

In looking at these strategies from the revenue perspective, rather than performance maturity, some interesting results are revealed. While the most often-cited action is common across small, mid-size, and large companies, we see some differentiation in the second position. For small businesses, investing in A/R automation ranks a close second (41%), while midsize companies are looking to increase their usage of eInvoicing (43%). Both address the technology question, with one focusing on internal automation and the other on expediting interactions with trading partners. Large enterprises noted a somewhat different interest: with larger and more distributed footprints, their second order of business is to centralize their A/R operations. Some of the benefits of this approach are detailed below, in the case study of Apogee Enterprises.

Company Size Defined

Aberdeen uses annual revenue to group respondents into company size:

√ Small: Under $50m

√ Mid-size: $50m to $1b

√ Large: $1b and above

Apogee Enterprises – A Shared Services Perspective

For Apogee Enterprises, the Minnesota-based supplier of glass for everything from skyscrapers to picture frames, the shared service center approach to A/R has been paying off. At the credit application stage, each business unit runs its own department, utilizing a scorecard tool to capture information from applications, credit reports, trade references, and financial statements to mitigate risk up-front. These scores carry through to the collections cycle, allowing Apogee to tailor their collections strategies based on the risk profile of each individual customer. The results of implementing credit and collections software have been shared by Apogee's individual business units and shared service center alike.

continued

Telephone: 617 854 5200
Fax: 617 723 7897

## Apogee Enterprises – A Shared Services Perspective

Run by Jerry Drake, Apogee's Director of Credit and Collections, the corporate shared service center has recently taken over the collections activities for their aluminum storefront business unit, Tubelite. "We drew up an SLA, and outlined some points that they would need to give us, such as access to the ERP environment and purchase of a collections management solution," says Drake. "We then worked out an included price range, covering new account approvals, the number of accounts we'd manage for them, etc." The results have been impressive. After the transition, Tubelight's DSO has dropped from a climbing 55-to-56 days to a steady 40 days. They also saw Receivables Over 90 days plummet from approximately 9% to less than 1%. On the credit side, new customer confirmations that used to take upwards of 10 days are now regularly completed in just two or three (with the ability to do so in just a few hours in special circumstances). "It's not just a blip or a bleep – it's been a constant trend down," according to Drake.

The benefits have come as a result of efficiencies gained by allowing different employees to focus on specific tasks. "The success we've had is when we separated the collections piece from the disputes and deductions," says Drake. "We've had happier people." Collections employees can focus on talking to customers and hitting goals, while those in disputes and deductions can dig into the accounting to figure out what is going on with a particular invoice or order. "Both are important, but different, skill-sets. That's why we look at the people involved. We're successful when we're able to put the right people in the right positions."

Order-to-Cash Improvement: What's the Point?

With a view of the pressures companies are facing, and their chosen strategies for combating them, an important question to answer is: how will improvements in the order-to-cash cycle produce benefits for the greater enterprise? As shown in Figure 3, there are a few areas that stand out. Reducing Days Sales Outstanding (DSO) frees up cash that can be put to more productive use. Improving visibility and forecasting allows management to identify upcoming deficits or surpluses and adjust short-term borrowing accordingly. Making order management, payments processing, and related processes more efficient directly addresses the cost pressure at the top of list for the majority of respondents. Last, but certainly not least, is the ability to mitigate risk. Risk's impact on the financial health of the organization is not limited to late or missing payments; risk affects the liquidity of receivables, and the aggregate risk of an entire portfolio can increase borrowing costs and lower the potential value of those receivables in a financing arrangement.

Figure 3: Main Objectives of Order-to-Cash Improvement
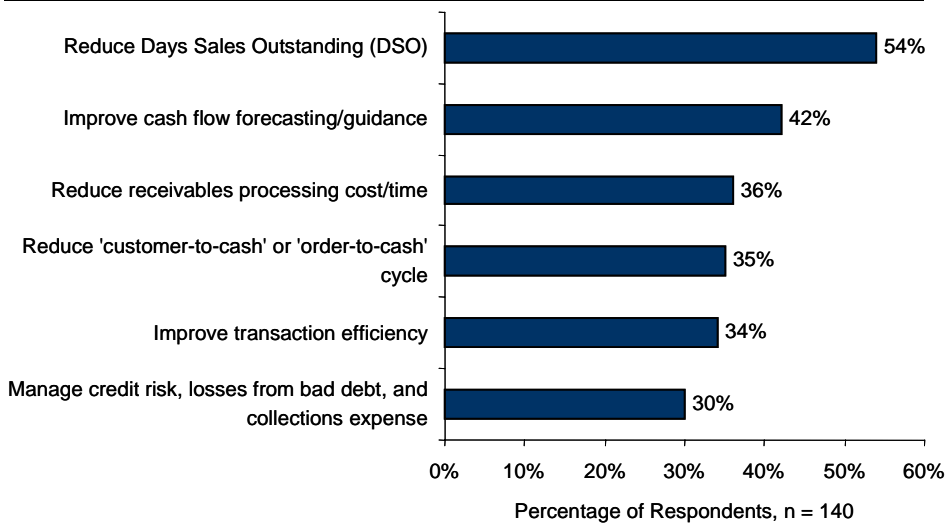
Source: Aberdeen Group, June 2011

So how does order-to-cash performance affect the enterprise? It's simple: order-to-cash improvement *is* enterprise improvement.

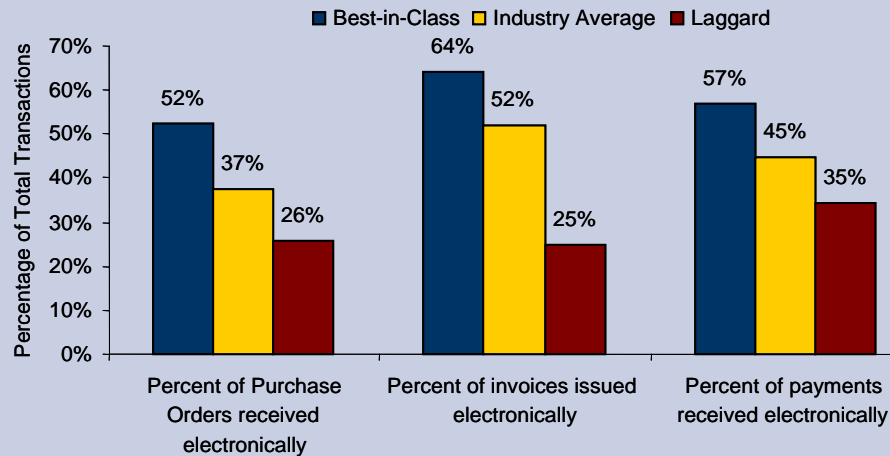### The Impact of Electronic Transactions

A/R is an area where even the most efficient process can't truly dictate early (or even timely) payments from customers. Since it is so dependent on the actions of an outside party, companies are left with a choice: they can encourage timeliness by lowering the cost of compliance or by raising the cost of non-compliance. As illustrated in *Effective eProcurement: Assessing Options for the New "Economic Normal"*, buy-side procurement technologies can drive significant benefits, but sell-side collaboration is critical. Similarly, Aberdeen's A/P research (such as April's *Invoicing and Workflow: Integrating Process Automation to Enhance Operational Performance*) has shown how costly and inefficient paper invoices and paper check-based payments can be for buyers. When combined, accepting electronic POs, issuing electronic invoices, and receiving electronic payments can offer significant value to your customers. Even though efficiency in A/R can never guarantee timely payments, Figure 4 illustrates that those companies achieving the best results (including the lowest levels of past-due payments) are also taking the lead in helping their customers to process transactions efficiently. For suppliers with significant strategic leverage in their client relationships (i.e. those supplying critical parts, with significant cost advantages, or without significant competition), a combative approach may yield the same results.

continued

The Impact of Electronic Transactions

And in light of the A/R benefits associated with the technologies that provide these electronic capabilities, however, this insistence may ultimately self-defeating.

Figure 4: Usage of Electronic Transactions by Maturity Class

Legend: Best-in-Class | Industry Average | Laggard

- Percent of Purchase Orders received electronically: Best-in-Class 52%, Industry Average 37%, Laggard 26%
- Percent of invoices issued electronically: Best-in-Class 64%, Industry Average 52%, Laggard 25%
- Percent of payments received electronically: Best-in-Class 57%, Industry Average 45%, Laggard 35%

Y-axis: Percentage of Total Transactions (0% – 70%)

Source: Aberdeen Group, June 2011

In the next chapter, we will understand additional Best-in-Class strategies leveraged to achieve their performance edge over their peers.

Aberdeen Group
A Harte-Hanks Company

Chapter Two:
Benchmarking Requirements for Success

Without a foundation of sound process design, technology offerings in the order-to-cash arena will not reach their full potential. Similarly, the ideal process may not be effectively facilitated by a purely manual approach. Finding the best balance between these potentially-competing ideas requires a careful examination of both the current and future state, to plot a course for transition and to identify what solutions may be necessary to reach the desired destination. This chapter, and the case study, will help to identify some specific capabilities that can drive improvement initiatives, based on the combined experiences of companies across a variety of industries.

Nidec Motor – Managing a Distributed Workforce

Nidec Motor Corporation, which acquired Emerson Motor Co. from Emerson Electric in October of 2010, produces electrical motors for applications ranging from large-scale industrial projects such as municipal water treatment plants to small-scale home appliances. They serve customers across the globe in a wide variety of industries, with manufacturing locations in the U.S., Mexico, and China, and operating divisions in those countries as well as Canada, Columbia, and Venezuela.

Exports to countries where Nidec does not have an operating division are largely handled by their US office, with additional support staff in Manila. "This adds another layer of complexity," according to Brenda Jalowiec, Global Director of Credit and Accounts Receivable. This was a driving factor behind the implementation of a solution which could define rules and strategies to guide the staff's workday. "When someone comes in, whether in St. Louis or Manila, it makes no difference," says Jalowiec. "The software drives the list of customers to contact, tells them what they are to do on a call or in an email, automated email and letter creation so that there are no language issues, and pushes them out to customers." The solution allows staff to input notes for individual customers or line-items, so that Jalowiec can see exactly what's been done on particular invoices for particular customers.

The consistency of processes across locations wasn't the only benefit that Nidec gained. While the initial expectation was for the Manila group to handle only transactional items, they have been able to expand their role using modules within the software to handle what Jalowiec calls "enhanced customer service;" quickly evaluating whether an order can be release when a customer has gotten to their credit limit. "Having historical payment information on-hand allows us to do that," says Jalowiec. "In the past, we would have had to send it back to St. Louis for evaluation and decision. We've been able to take a lot of the non-value-add work out of the management in St. Louis."

continued

Fast Facts

√ **72%** of the Best-in-Class have real-time visibility into invoice volumes and status - a level nearly 3-times that of Laggards.

√ Best-in-Class companies are **2.5-times** as likely as Laggards to utilize electronic workflows in their order-to-cash processes

Nidec Motor – Managing a Distributed Workforce

The implementation has come with some demonstrable quantitative savings as well. In terms of productivity, Nidec has been able to support these activities while reducing headcount by 50%. The addition of a deductions management module has borne fruit as well. Beforehand, Nidec was dealing with approximately $2 million in deductions on $40 million of receivables – 5% of total volume. With the software's ability to measure, track, and manage deductions to resolution, their current deductions are $300k on an A/R volume of nearly $70 million, bringing the total in dispute to just .4%. "It's been an extremely good tool," says Jalowiec. "We had absolutely nothing like it in our ERP."

Competitive Assessment

Aberdeen Group analyzed the aggregated metrics of surveyed companies to determine whether their performance ranked as Best-in-Class, Industry Average, or Laggard. In addition to having common performance levels, each class also shared characteristics in five key categories: (1) **process** (the approaches they take to execute daily operations); (2) **organization** (corporate focus and collaboration among stakeholders); (3) **knowledge management** (contextualizing data and exposing it to key stakeholders); (4) **technology** (the selection of the appropriate tools and the effective deployment of those tools); and (5) **performance management** (the ability of the organization to measure its results to improve its business). These characteristics (identified in Table 3) serve as a guideline for best practices, and correlate directly with Best-in-Class performance across the key metrics.

Table 3: The Competitive Framework

	Best-in-Class	Average	Laggards
Process	Major process steps are automated and only require minimal manual intervention in case of exceptions		
	57%	25%	13%
	Standardized enterprise-wide procedures for quotation and order management		
	53%	52%	23%
Organization	Collaboration between Finance, Credit, and Sales to optimize sales based on collectability		
	53%	39%	22%
Knowledge	Centralized repository for customer credit scoring and risk data		
	50%	41%	14%
	Established process to regularly score the entire A/R portfolio		
	38%	32%	8%

Aberdeen *Group*
A Harte-Hanks Company

	Best-in-Class	Average	Laggards
Technology	Billing and collections are integrated with order entry and credit with no duplicate data entry		
	66%	44%	18%
	Automated verification of tax accuracy based on customer location, customer or item tax exemption, etc.		
	46%	30%	11%
	System-level designation to separate disputes/deductions from collections		
	25%	25%	3%
Performance	Process and performance exceptions can trigger alerts as they occur		
	50%	27%	13%
	Real-time visibility into:		
	▪ Outstanding invoice volumes and status - 72% ▪ Current exceptions by customer, problem type, etc. - 47%	▪ Outstanding invoice volumes and status - 58% ▪ Current exceptions by customer, problem type, etc. - 38%	▪ Outstanding invoice volumes and status - 26% ▪ Current exceptions by customer, problem type, etc. - 14%

Source: Aberdeen Group, June 2011

"With diverse ERPs, we never knew how long [dispute resolution] took. Now we can tell how long it takes to record, to handle or resolve, and how long it takes to pay after resolution. In the past, all we knew was DSO. Now we know what's in dispute, what's in legal, and we know exactly what we can collect today."

~ Shaun Skene,
Global Director of Credit and Collections,
Weatherford International

Capabilities and Enablers

Based on the findings of the Competitive Framework and interviews with end users, Aberdeen's analysis of the Best-in-Class demonstrates that standardization of processes, integration of systems, and collaboration across functional areas of the enterprise are all closely aligned with top-tier performance. The sections that follow take a closer look at some of the capabilities that serve to separate the Best-in-Class from lower performing groups.

Process

Though much of the order-to-cash conversation revolves around credit and collections, it all starts with order management. This is an area where the Best-in-Class have adopted standardized procedures 2.3-times as often as Laggard companies. With so much of the post-order process reliant on accurate information, standardization from the outset aims to avoid the pitfalls of "garbage in, garbage out." Standardization here ensures that the right data is collected, so that as it flows from order to fulfillment to invoicing, completeness and accuracy are continued.

Another area where the Best-in-Class are leading the way is in process automation. To quantify that assertion, these top-performers have automated major process steps (thus requiring minimal manual intervention

only in case of exception) 4.4-times as often as respondents from Laggard companies. A few examples of this maturity difference include the automated workflows Best-in-Class companies have enabled for quote-to-order conversion (27% vs. 5%), credit checking (30% vs. 8%), order release to fulfillment (52% vs. 11%), invoice release (53% vs. 23%), and cash collection (27% vs. 3%) – all cited far more often than their Laggard peers. The goal of this enablement is to minimize manual intervention, streamlining operations and allowing the organization to manage by exception rather than by default.

Automation helps to differentiate the Best-in-Class when it comes to the end of the order-to-cash cycle as well. Reconciliation, especially in a manual environment, can drive up the costs of accounting for payments received on open invoices. Here, we can see that the Best-in-Class have taken the lead in automating the process of matching incoming payments to invoices, both at the stage when payment is received by A/R, and when the funds actually clear at the company's bank. This may be explained, at least in part, by their level of integration: 63% of the Best-in-Class reported the adoption of electronic interfaces to their banks, a far greater number than Laggards, of which only 37% noted this enabling technology.

Figure 5: Automation in Cash Application
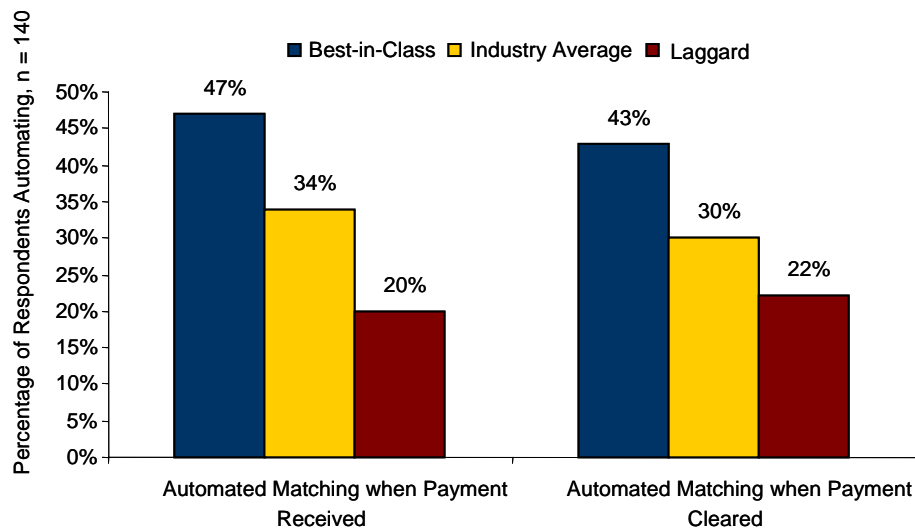
Source: Aberdeen Group, June 2011

Organization

In a slowly-recovering economy, it may seem unwise to turn away business. It is, of course, just a matter of degree. Trade credit cannot be extended infinitely, and decisions will always be made to set appropriate limits on customer orders. What is important is the way in which those decisions are made. In this vein, it is the collaboration between finance, credit, and sales to optimize sales activity that sets the Best-in-Class apart (a capability they report 2.4-times as often as Laggards). Not surprisingly, these top-

Aberdeen *Group*
A Harte-Hanks Company

performers are quite satisfied with their ability to set appropriate credit limits based on customer risk profiles. When asked to rate their level of satisfaction on a 5-point scale (with 1 meaning 'very dissatisfied' and 5 meaning 'very satisfied') the Best-in-Class scored a 3.8, as compared to 2.7 for Laggards. Their performance, as profiled in Chapter One, serves to show that this satisfaction is well-earned.

Knowledge Management

Just as standardized processes ensure a common tactical approach to order management, collections, and dispute resolution, a centralized repository for customer credit scoring and risk data ensures a common foundation for credit decisions and collections strategies. The Best-in-Class, which report this capability 3.6-times as often as Laggards, ensure that everyone involved in the order-to-cash cycle is on the same page when it comes to underlying data. While this may seem trivial at first glance, its potential benefit may become a bit clearer when viewed from the perspective of a distributed enterprise with multiple isolated ERPs or financial systems. Without a common data foundation (that oft-cited "single source of truth"), ensuring consistency (and predictability) in decision-making could prove to be a maddening challenge.

While a common repository may address the consistency of data across systems or locations, it is not the only data-related concern for organizations. For information-based processes, the accuracy (or, alternatively, currency) of data is also critical. Here, the Best-in-Class again distinguish themselves for their establishment of processes to regularly score their entire A/R portfolio (cited 4.8-times as often for Laggards). Regular evaluation of customer risk profiles helps ensure that credit decisions and collections strategies are correctly set based on individual risk profiles. As illustrated in Table 4, the frequency of and method for credit scoring differs between the maturity classes as well.

> "Both [collections and dispute resolution] are important, but different, skill-sets. That's why we look at the people involved. We succeed when we're able to put the right people in the right positions."
>
> ~ Jerry Drake,
> Director of Credit and Collections,
> Apogee Enterprises

Table 4: A/R Portfolio Scoring Frequency and Methods

Attribute	Best-in-Class	All Others
Portfolio Scoring Frequency		
Monthly or more often	57%	45%
Real-time scoring	10%	2%
Portfolio Scoring Method		
Blend of statistical and judgmental scoring	68%	49%
Statistical only	8%	11%
Judgmental only	8%	28%

Source: Aberdeen Group, June 2011

Technology

If a data repository's aim is to ensure everyone is looking at the same page, the goal of solutions integration is to make sure that page doesn't need to be re-typed for every interested reader. As a transaction works its way through the order-to-cash cycle (from initial placement through credit evaluation, release, shipment, billing, and collections) there is a common stream of information relating to that transaction that needs to follow the same path. By integrating these functions (as the Best-in-Class have done 3.7-times as often as Laggards), data is exchanged, manual re-keying between solutions is reduced or eliminated, and the number of potential sources of inaccuracies is minimized. Coincidentally, with a reduction of non-value-added data re-entry, resource requirements decrease as well, allowing for cost savings through headcount reduction or reallocation of staff to more beneficial tasks such as dispute resolution or active collections.

Of course, inaccuracy is not always the result of mistyped data. Accurate assessment of proper taxes on customer invoices requires tracking the tax status of both the purchasing organization and the purchased items, alongside the buyer's self-assessment status in the purchasing jurisdiction. Not surprisingly, this is an area where the Best-in-Class have looked to automation for assistance, reporting this capability 4.2-times as often as their Laggard peers. The topic of taxation also calls for its own dedicated coverage (see Aberdeen's May 2011 report _Streamlining Sales and Use Tax Management: Best Practices in Minimizing Audit Exposure_ for just one example) but in the A/R context it is important to at least point out that inaccuracies in assessed taxes on invoices can lead to reconciliation issues not only with your customers, but also with the tax authorities that have an interest in ensuring that the proper amounts are remitted to their respective coffers.

Technology Choices of the Best-in-Class

From technology-related capabilities, it is only fitting to take a look at the sorts of technology solutions the Best-in-Class are using that help provide them with some of the capabilities discussed above. As an initial note, for a majority of companies surveyed (across all maturity classes), the foundational system for A/R and billing is an ERP (53%). For the remainder, the function is handled by a stand-alone A/R solution (14%), a financials-only system (12%), a Customer Relationship Management (CRM) application (8%), or a lightweight desktop application (7%). The last group, none of which achieved Best-in-Class performance, relies on manual billing (6%).

With that as a backdrop, we can review some of the technologies that showed substantial adoption differences between the Best-in-Class and their lesser-performing peers (Figure 6). It is important to note, however, that even the Best-in-Class fall far short of across-the-board in terms of adoption. The world of POs and invoices is still dominated by manual processes and paper documents, with the Best-in-Class are leading the way towards automation and electronification. Towards that end, the largest relative difference in adoption is in the area of customer self-service portals. These technologies help to facilitate document transmission and (in some

cases) payment, while also providing the ability to track transaction status and communicate regarding deductions and disputes.

The remainder of these technologies with the greatest adoption gaps are focused internally. Dashboards provide quick views into processing status and other operational measures (aging of past due invoices, exception types, etc.). Business intelligence tools allow management to dig a bit deeper, with a more robust engine focused more on detailed analysis than summary reporting. Electronic workflows translate defined business rules into standardized (and mandated) process steps, while event management solutions allow for notification and escalation when problems occur. In the current market, companies are certainly not lacking for options. When evaluating how these technologies may be of benefit to your company, do not overlook the importance of gaining a single source of common data, whether through direct integration of parallel systems (i.e. multiple ERP implementations) or via a separate overlaying solution.

Figure 6: Technology Choices of the Best-in-Class
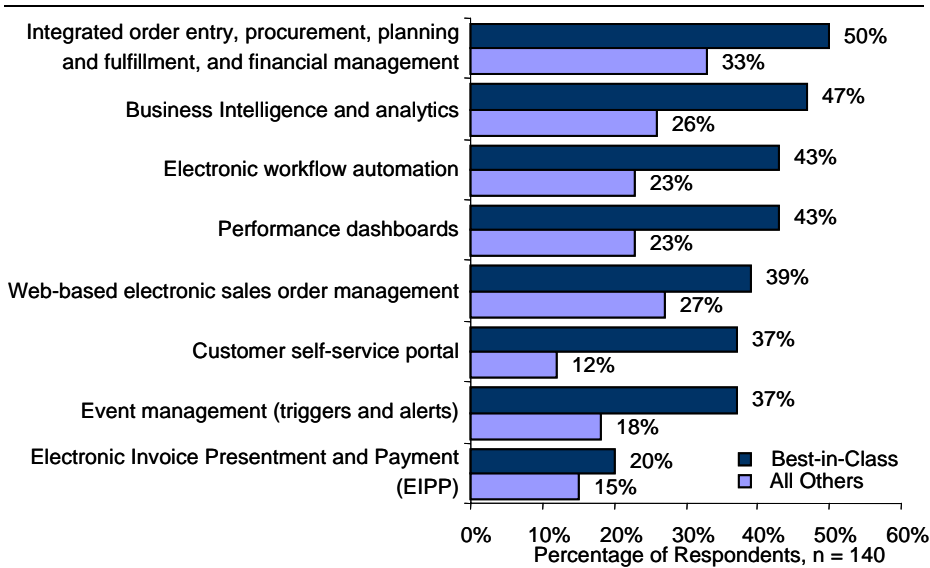
Source: Aberdeen Group, June 2011

Performance Management

While the majority of this discussion has been focused on how the Best-in-Class get things right, it can be equally (if not more) important to quickly learn when something has gone wrong. This is also an area where those top-performers differentiate themselves, as they report the ability to have process and performance exceptions trigger real-time alerts 3.9-times as often as Laggards. This could be as simple as a reminder to a collections representative that a scheduled call is overdue, or a managerial alert that A/R days over 90 have exceeded a pre-determined limit. In both instances, the aim is to make the appropriate parties aware that the current state is less than ideal, and afford them the opportunity to set things right as quickly

as possible - without having to wait until an end-of-period report run to find out what happened in months prior.

Whereas event management is an automated mechanism for generating alerts based on certain pre-defined conditions, real-time monitoring simply affords management the ability to keep an eye on the current state of affairs. It is closely tied to the dashboard technology discussed earlier, but where the Best-in-Class differentiate themselves is in the timeliness of the data available for review: they report real-time visibility into outstanding invoices and current exceptions far more often than Laggard companies (2.8-times and 3.4-times as often, respectively.) This degree of visibility not only provides an accurate picture of the process, but helps to identify inefficiencies and bottlenecks that may be impeding optimal performance.

Weatherford International – Managing Complexity and Improving Performance in a Growth Environment

Weatherford International, a Swiss-based multinational company, provides products and services to support the full cycle of extraction from oil and natural gas wells. Their business, which has grown considerably through organic and acquisition means, currently operates in over 100 countries, with a workforce of over 55,000 employees. They service in excess of 10,000 customers, ranging from mom-and-pop shops up to multi-nationals.

The company is currently running two main ERP systems, and acquisitions have created a need to integrate approximately 40 other minor systems, according to Shaun Skene, Global Director of Credit and Collections. With the rate of change, the systems struggled to keep up with growth. "Visibility and standardization were a challenge," says Skene. "Coverage (getting to all our customers in a given month) was a challenge as well. Sometimes we were leaving some sizable amounts we couldn't get to. Disputes were impacting our ability to collect, but we couldn't quantify that."

Weatherford looked for a system to handle collections and disputes that could cut down the time spent on manual reporting, and provide an overlay to their accumulated systems footprint. After migrating 85% of their customer base to the two main ERPs, they chose a collections solution that could connect with those ERPs as well as four additional systems, covering approximately 90% of their total A/R volume. "The system gives us far, far more dynamic information than we ever had before," says Skene. "In the past, we didn't have a place for this information – we only had a gut feel for the situation. Now we have the data."

continued

Weatherford International – Managing Complexity and Improving Performance in a Growth Environment

This additional data also gave Weatherford an opportunity to revisit some if its KPIs. For example, they are now able to track their promise-to-pays, and log which customers have actually paid when they said they would. This greater visibility had also allowed Weatherford to focus on preventing disputes and minimizing resolution time. According to Skene, "With diverse ERPs, we never knew how long it took. Now we can tell how long it takes to record, to handle or resolve, and how long it takes to pay after resolution. In the past, all we knew was DSO. Now we know what's in dispute, what's in legal, and we know exactly what we can collect today."

The performance gains derived from the collections and deductions solution have been impressive. Between 2009 and 2010, Weatherford's DSO improved by seven days, freeing up approximately $212 million in cash flow. They have also been able to double the amount of time the staff spends on value-added activities, such as calling customers and dealing with disputes, instead of tasks such as credit checks. As aptly summed up by Skene, "The more time you spend asking customers to pay you, the more you'll actually get paid."

Aberdeen *Group*
A Harte-Hanks Company

Chapter Three:
Required Actions

The order-to-cash cycle contains many moving parts, and it can be difficult to know where to begin an improvement effort. Whether a company is trying to move its order-to-cash performance from Laggard to Industry Average, or Industry Average to Best-in-Class, the following actions will help spur the necessary performance improvements:

Laggard Steps to Success

- **Standardize procedures for quotation and order management.** In the spirit of getting things right the first time, ensure that the order-to-cash cycle starts off with accurate, reliable information. Companies that have standardized these processes report 30% lower invoice volumes requiring manual intervention than those that haven't.

- **Integrate order entry, credit, billing, and collections.** When the goal is efficiency, a good deal of progress can be made simply by removing unnecessary duplication of effort. In this context, that means connecting up multiple solutions to feed data through the cycle without requiring manual re-keying. Surveyed respondents that have already integrated are able to process 41% more invoices per FTE than those that have not (660 per month vs. 467).

- **Centralize customer risk information in a single location.** Providing a common repository for customer risk information not only makes it easier for employees to find the information they need, it also ensures that everyone is working from the same common foundation. Companies that have implemented such repositories report 10% lower past due A/R and are 31% less likely to cite customer default or non-payment as a top pressure affecting their business.

Industry Average Steps to Success

- **Implement or expand automation of the order-to-cash cycle.** Once the foundation has been laid with well-designed processes, the natural next step is to reduce the amount of manual work required to complete them. Responding companies that have automated major steps in the order-to-cash process reported volumes of disputed invoices 27% lower than others. On average, they are also able to process 14% more invoices per month with 9% less staff than their non-automated peers.

- **Investigate the benefits of event management and automated alerts.** These may be dedicated solutions, or included as functionality within another system. In either case, they go hand-in-hand with a transition to management by exception. The benefits

How Does Your Performance Compare to the Best-in-Class?

- Compare your processes

- Receive a free, personal PDF scorecard

- Benefit from custom recommendations to improve your performance, based on the research

Take the Assessment

Receive Your Free Scorecard

of this approach are quite sizeable. Companies employing these technologies process 68% more invoices per FTE, and report 57% lower volumes of invoices requiring manual intervention.

Best-in-Class Steps to Success

- **Keep up on regular scoring of the A/R portfolio.** The Best-in-Class are leading the way, but there is always room for improvement. Companies that have established a process to regularly score their A/R portfolio report past due receivables 28% lower than others. They are also 1.9-times as likely to be 'very satisfied' with their ability to set appropriate credit limits based on customer risk profiles.

- **Continue growing electronic volumes of POs, invoices, and payments.** Even though the Best-in-Class have made significant progress in this area, it is still a largely paper-based world. However, the performance benefits of electronic transactions provide a persuasive reason to continue the journey. Those companies reporting high volumes of electronic transactions achieve much lower volumes of A/R past due: high electronic POs (36% better than those with low volumes), invoices (37% better), and payments (25% better).

The Order-to-Cash Cycle

At first glance, the order-to-cash cycle seems quite simple: taking orders, delivering products and/or services, and getting paid. But navigating through the steps (order management, credit, fulfillment, billing, collections, dispute resolution, and cash application) begins a journey that stretches far beyond the confines of A/R and intertwines with sales, manufacturing, and the supply chain. For finance professionals, it is also a fascinating combination of policy and procedure that offers great potential to directly affect the financial health of the enterprise in a positive way.

Each step in this cycle could be the focus of its own dedicated treatment. What this study aims to do is to provide an overview of the issues involved and choices available, along with a solid understanding of how other organizations have approached performance improvement in the A/R arena-- and the varied results they have achieved. The analysis of the Best-in-Class should provide a good starting point for a focused inquiry into any one of the elements of the order-to-cash cycle.

Appendix A:
Research Methodology

Between May and June, 2011, Aberdeen examined the use, the experiences, and the intentions of 140 enterprises using order-to-cash technologies in a diverse set of enterprises.

Aberdeen supplemented this online survey effort with telephone interviews with select survey respondents, gathering additional information on order-to-cash strategies, experiences, and results.

Responding enterprises included the following:

- *Job title:* The research sample included respondents with the following job titles: C-level Executive (26%); Controller / GM (6%); EVP / SVP / VP (8%); Director (18%); Manager (22%); Consultant (10%); and other (20%).

- *Department / function:* The research sample included respondents from the following departments or functions: Finance / Administration (29%); Corporate Management (18%); Business Development / Sales (13%); Information Technology (10%); Operations (5%); and other (25%).

- *Industry:* The research sample included respondents from a wide variety of industries, including: Software (14%); Financial Services (8%); Aerospace & Defense (5%); Metals and Metal Products (5%); Transportation / Logistics (5%); CPG (4%); Chemicals (4%); Consumer Electronics (4%); Health / Medical / Dental Devices (4%); and Industrial Equipment Manufacturing (4%).

- *Geography:* The majority of respondents (67%) were from North America. Remaining respondents were from Europe (15%), the Asia-Pacific region (13%), the Middle East and Africa (4%), and South/Central America (1%).

- *Company size:* Twenty-one percent (21%) of respondents were from large enterprises (annual revenues above US $1 billion); 31% were from midsize enterprises (annual revenues between $50 million and $1 billion); and 48% of respondents were from small businesses (annual revenues of $50 million or less).

- *Headcount:* Thirty-three percent (33%) of respondents were from large enterprises (headcount greater than 1,000 employees); 32% were from midsize enterprises (headcount between 100 and 999 employees); and 35% of respondents were from small businesses (headcount between 1 and 99 employees).

Study Focus

Responding finance and AR professionals completed an online survey that included questions designed to determine the following:

√ The degree to which Order-to-Cash automation is deployed in their operations and the financial implications of the technology

√ The structure and effectiveness of existing Order-to-Cash implementations

√ Current and planned use of Order-to-Cash automation to aid collections and dispute resolution activities

√ The benefits, if any, that have been derived from Order-to-Cash improvement initiatives

The study aimed to identify emerging best practices for Order-to-Cash processes, and to provide a framework by which readers could assess their own management capabilities.

Table 5: The PACE Framework Key

Overview
Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows: **Pressures —** external forces that impact an organization's market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive) **Actions —** the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product / service strategy, target markets, financial strategy, go-to-market, and sales strategy) **Capabilities —** the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products / services, ecosystem partners, financing) **Enablers —** the key functionality of technology solutions required to support the organization's enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)

Source: Aberdeen Group, June 2011

Table 6: The Competitive Framework Key

Overview	
The Aberdeen Competitive Framework defines enterprises as falling into one of the following three levels of practices and performance: **Best-in-Class (20%) —** Practices that are the best currently being employed and are significantly superior to the Industry Average, and result in the top industry performance. **Industry Average (50%) —** Practices that represent the average or norm, and result in average industry performance. **Laggards (30%) —** Practices that are significantly behind the average of the industry, and result in below average performance.	In the following categories: **Process —** What is the scope of process standardization? What is the efficiency and effectiveness of this process? **Organization —** How is your company currently organized to manage and optimize this particular process? **Knowledge —** What visibility do you have into key data and intelligence required to manage this process? **Technology —** What level of automation have you used to support this process? How is this automation integrated and aligned? **Performance —** What do you measure? How frequently? What's your actual performance?

Source: Aberdeen Group, June 2011

Table 7: The Relationship Between PACE and the Competitive Framework

PACE and the Competitive Framework – How They Interact
Aberdeen research indicates that companies that identify the most influential pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute those decisions.

Source: Aberdeen Group, June 2011

Appendix B:
Related Aberdeen Research

Related Aberdeen research that forms a companion or reference to this report includes:

- *Invoicing and Workflow: Integrating Process Automation to Enhance Operational Performance*; April 2011

- *Supply Chain Finance: Gaining Control in the Face of Uncertainty*; January 2011

- *Operational Cash Management: Streamlining Processes to Unlock Liquidity*; November 2010

- *Effective eProcurement: Assessing Options for the New "Economic Normal"*; November 2010

- *From Preservation to Prosperity: The CPO's Agenda for a New Decade*; September 2010

- *The Order-to-Cash Cycle: Integrating Business Processes to Improve Operational Performance*; March 2008

- *Benchmarking the Order to Cash Cycle*; April 2007

Information on these and any other Aberdeen publications can be found at *www.aberdeen.com*.

Author: Scott Pezza, Senior Research Associate, Financial Management & GRC, (scott.pezza@aberdeen.com)