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Excellence in Order Management: The Benefits of Automation

Analyst Insight

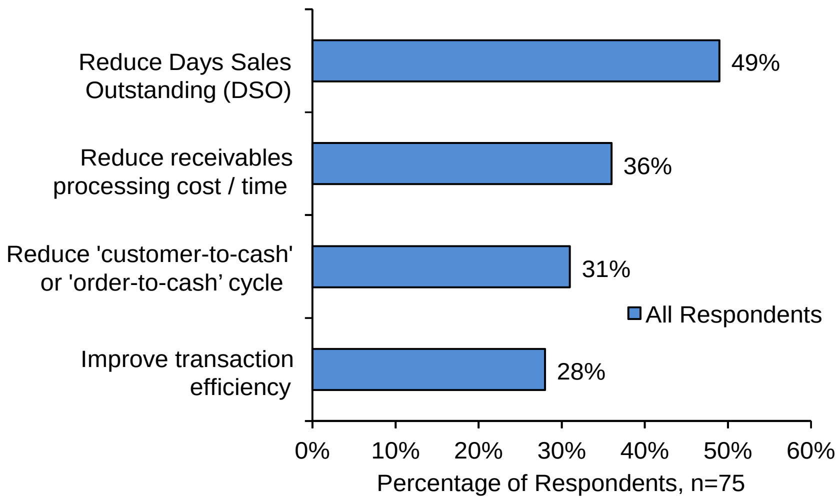
Aberdeen's Insights provide the analyst's perspective on the research as drawn from an aggregated view of research surveys, interviews and data analysis.

Faster, cheaper and better is usually an impossible trio of improvements. Companies often have to be satisfied with two out of three, but not so when it comes to order management. The sales order process begins from the time the company receives a customer order and ends with the creation of a sales order in the order tracking system. The entire process can be cumbersome and a drain on financial and human resources. The "Order-to-Cash" or OTC cycle is comprised of multiple sub-processes: order entry (creation), order fulfillment, distribution, invoicing, payments/collection, cash allocation and account reconciliation. If the very first step in this OTC journey is arduous, the remainder of the process will not be efficient in terms of service and quality and will prolong the OTC cycle. Order management is a critical step in the OTC cycle and is particularly important for establishing long-term customer relationships. This Analyst Insight examines the top objectives for improving order processing and explores how automation, integration and other order management capabilities contribute to faster order processing with reduced costs.

Striving for Faster Order Management

The top improvement objectives for AR departments revolve around accelerating order management (Figure 1). Nearly half of all respondents listed reducing Days Sales Outstanding (DSO) as a top objective.

Figure 1: Leading Objectives of the AR Department



Source: Aberdeen Group, July 2012

Even though most companies measure and report DSO at a later stage in the sales-to-close process, every sub-process along the journey contributes to this metric. For example, if a customer places an order with a company and calls back later in the day to change it, any delay in making the amendment adds to DSO. Orders processed manually are especially vulnerable to slowdowns because of poor accessibility. The sales representative who had earlier recorded the order on paper and filed it away will have to stop what he/she is doing, search for and locate the order, and then notify the client. All these extra steps stall the first stage of the sales-to-close cycle and delay overall response.

Thirty-six percent (36%) of respondents cite reducing receivables processing cost and time as a leading objective. Let's revisit our example. As a customer calls back to update an order, the amount of time spent by the sales representative to unsuccessfully retrieve the order sheet that day (and try again the next day) are administrative costs that add to the overall receivables cost. Suppose there is a loyal patron who has been doing business with the company for years and imagine the paper trail that must have been dedicated to this customer. While tracking is certainly a best practice, the paper, printer, fax machine, etc. all add to the receivables processing cost and duration. Organizations are further aiming to accelerate order processing by reducing the OTC cycle (cited by 31% of respondents) and improving transaction efficiency (28%).

Automation, Integration, and Visibility

Aberdeen defines top performing organizations achieving these objectives as Leaders (see sidebar). When asked about the ability to provide accurate and complete information when invoicing customers (e.g., customer Purchase Order numbers, item IDs, etc.), 65% of Leaders indicated their satisfaction level from "somewhat satisfied" to "extremely satisfied," compared to only 50% of Followers. Given that most companies are faced with similar challenges, what are leading companies doing differently than their peers?

One way leading companies accomplish these objectives is by addressing and updating order-related queries rapidly through automation. According to the *2012 OTC study*, 39% of Leaders use an automated workflow to release orders to production and fulfillment compared to 28% of Followers. However, when it comes to converting a quote to an order, 63% of organizations still rely on manual processes, including 70% of Leaders. Automation provides a very strong framework for operational efficiency and cost savings within the sales-to-close and OTC cycles. However, a human touch is still needed within order management for customer relationship management. As of today, just 14% of the companies use an automated workflow to handle such requests, of which 17% are Leaders and 13% are Followers.

Leaders: Order-to-Cash Cycle Criteria

The Aberdeen maturity class for this study is comprised of two groups of survey respondents. Classified by their self-reported performance across several key metrics, each respondent falls into one of two categories:

- √ **Leaders:** Top 30% of respondents based on performance
- √ **Followers:** Remaining 70% of respondents based on performance

Respondents to the 2012 O2C survey were ranked on the following criteria:

- √ **Percentage of A/R past due:**
  Leaders – 6.1%
  Followers – 8.8%

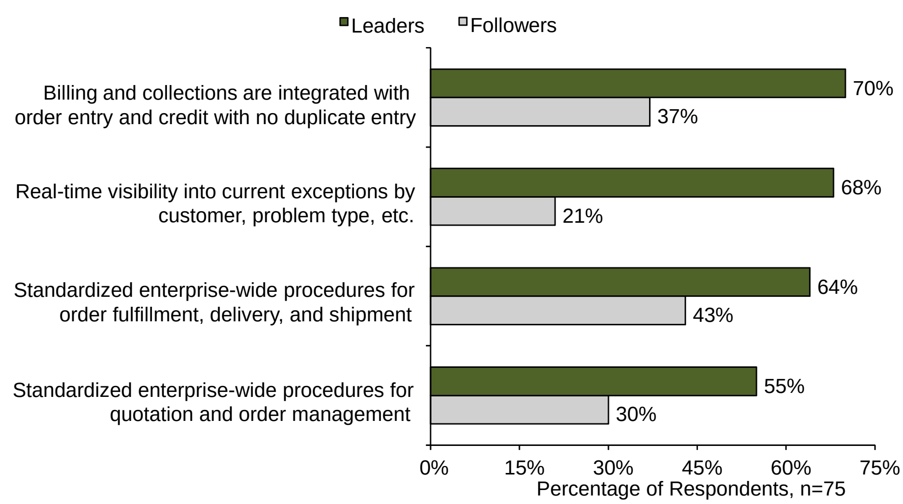
  Number of days for payments to clear A/R ledger:
  Leaders – 1.1 days
  Followers – 6.9 days
- √ **Percentage of invoices requiring manual intervention:**
  Leaders – 11.7%
  Followers – 30.1%

Context: Why OTC Matters

Leaders embrace a mix of key capabilities and automated processes across their entire OTC cycle (Figure 2). For instance, Leaders are almost twice as likely as Followers (70% of Leaders compared to 37% of Followers) to integrate latter sub-processes within the OTC cycle. Without an integrated platform, order management could require input from different resources across multiple departments, before actually being able to trace the original representative. All of these steps, if conducted manually, drain human capital while adding to overall processing cost and stalling the OTC cycle. Automation eliminates the errors that stem from manual order entry and drives faster, less costly order management.

Aware of these challenges and their impact on the overall OTC cycle, Leaders focus on the integration of different sub-processes, starting from order management all the way to collections, cash allocation and account reconciliation. Integration helps provide a holistic view to all departments to detect exceptions and enable timely resolution and greater financial visibility. Conducting this exercise manually would require a complete and easily accessible paper trail of all the intermediate steps — from the very first time a customer places an order to when an invoice is sent and arrives at billing, the payments department and the collection unit. Automation can overcome these challenges by not only expediting the process, but also by providing financial transparency and visibility.

Figure 2: Leaders Integrate and Standardize



Source: Aberdeen Group, July 2012

The benefits of automation are reflected in the reduced average time required for a payment to clear the AR ledger and the number of Full Time Employees (FTEs) in the department. According to the [*2012 OTC study*], Leaders take an average of 1.2 days to clear a payment against their AR

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ledger, compared to 8.3 days for Followers. Similarly, Leaders report seven FTEs within their departments compared to 13 FTEs for Followers.

Leaders also focus on standardizing core steps such as quotation, order management, fulfillment and delivery. This is particularly important for organizations today as they may outsource certain parts of their OTC cycle. For instance, an organization may decide to use a shared services center to cut costs or may decide to establish an order management department in a different state. Standardized quotes and the ability to share capabilities via a cloud-based platform across the entire enterprise, regardless of their location, ensure consistency and uniformity. According to Figure 2, Leaders are 49% more likely than Followers to establish standardized enterprise-wide procedures for order fulfillment, delivery and shipment, and 51% more likely to standardize quotation and order management.

Companies with real-time and interactive visibility into orders and workloads are more likely to balance their workforce across work functions and zones. They can reallocate resources during peaks and valleys that occur throughout the day. In addition to integration and standardization, Leaders also focus on real-time visibility and updates on order status. They do this for both internal stakeholders (e.g., customer service, order management, delivery, billing, etc.) as well as for external stakeholders who would like to check in on the progress of their orders. Leaders are 224% more likely than Followers (68% for Leaders compared to 21% for Followers) to implement real-time capabilities to detect customer exceptions and identify the problem type. Real-time updates help Leaders to not only redirect the issue to the correct personnel, but also to better service their customers or even resolve an issue before it escalates.

Order Management and the Supply Chain

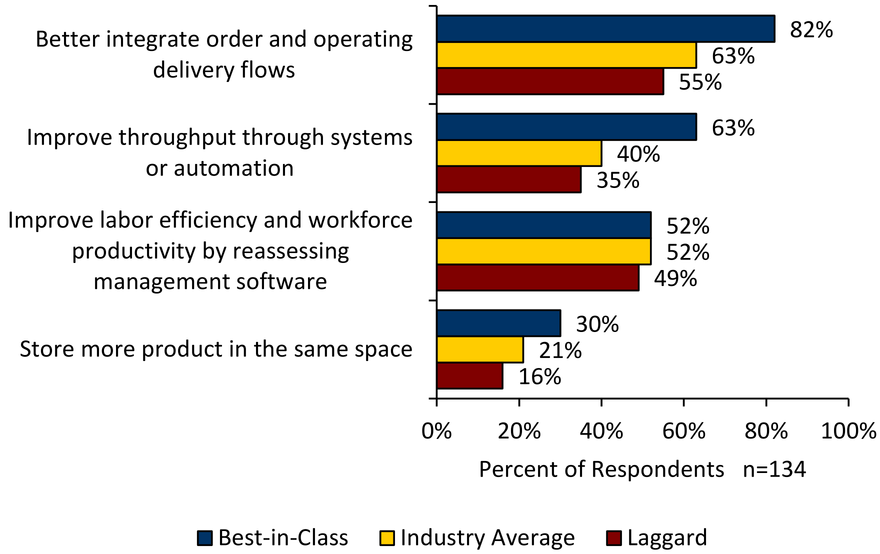
The benefits of effective order management stretch to multiple corners of today's organization. Companies that rely on an efficient supply chain understand the benefits of automation and efficiency in order management. Aberdeen's report on *"Order-to-Store" Fulfillment* validates this notion that top companies integrate and automate order processing. Eighty-two percent (82%) of the Best-in-Class and 59% of All Others integrate order and operating delivery flows within their supply chain (see sidebar). The Best-in-Class are also 63% more likely than all other organizations to use automation to improve throughput (Figure 3).

Best-in-Class Performance Metrics (Jan 2012), n =134

Aberdeen divided survey respondents into three maturity classes. Classified by their self-reported performance across several key metrics, the Best-in-Class represent the top 20% of organizations, Industry Average organizations represent the middle 50% and Laggards represent the bottom 30%. Respondents to the 2012 *Mobility and Real Time Event-Driven "Order-to-Store" Fulfillment* study were ranked on the following criteria:

- √ 97.8% perfect order rate delivered to customers complete / on-time
- √ 3.7% decrease in warehouse labor costs per unit handled vs. last year
- √ 2.6% decrease in actual warehouse operating cost vs. budget YTD

Figure 3: Top Actions in Store-Connected Fulfillment



Source: Aberdeen Group, January 2012

The Rise of the Cloud

Some organizations are exploring cloud-based solutions for the critical process of order management. Cloud-based solutions are also gaining popularity with companies seeking to improve order management. Compared to on-premises models, cloud automation offers faster deployment, fewer resource requirements and more predictable pricing. And, because of their flexibility in terms of scale and convenience, cloud solutions are particularly useful for organizations with a recurring revenue model (which need to take and manage orders on an on-going basis) as well as those with shared services center ambitions.

Whether it is for overall process efficiency or just for order management as a subset of the OTC cycle, leading companies are more proactive in exploring cloud-based solutions compared to their peers. According to the 2013 E-Payables survey, 28% of leading companies are currently evaluating options with regards to cloud-based solutions for their businesses processes and 41% currently have some or all of their applications in the cloud. With regards to order management, 34% of the respondents are currently using a web-based electronic sales order management solution and 24% are planning to use one in the near future — indicating overall room for growth with regards to cloud-based solutions.

Key Takeaways

The ability to serve customers quickly and provide timely order confirmations provides a competitive edge in today's business environment,

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where it is increasingly easy for unhappy customers to seek alternatives. Companies that value customer satisfaction and want to achieve operational efficiency understand the benefits of optimizing their order management processes via automation and cloud-based solutions. Companies hoping to drive success across the entire OTC cycle should keep the following in mind:

- **Time is money, cash is king.** Forty-nine percent (49%) of survey respondents listed reducing DSO as a leading objective. Leading companies have adopted a set of automation, integration and visibility capabilities to help achieve this goal. On average, Leaders take 1.2 days to clear a payment against their AR ledger, compared to 8.3 days for Followers.
- **Automation is the silver bullet.** Automation is the key tool for accelerating order management. Leaders are 39% more likely than Followers to have automated workflows, helping them achieve their superior order processing speeds. Automation eliminates the errors that stem from manual order entry and drives less costly order management. Sixty-three percent (63%) of organizations still rely on manual processes for converting quotes to orders, so there is still plenty of room for improvement.
- **Standardization and integration help with growing pains.** Standardizing order management and subsequent sub-processes imparts uniformity across the enterprise in terms of account management and dispute resolution. This is particularly relevant as companies want to scale operations without necessarily scaling the associated costs. Having standardized rules removes guess work and the company can grow using existing resources. Leaders are more likely than Followers to integrate sub-processes so that all departments have visibility into order status and can handle exceptions in a timely manner.
- **The cloud is rising.** Cloud-based solutions for order management are faster to deploy and require fewer resources than on-premises models. Among leading companies, 28% are currently evaluating cloud-based solutions for their business processes. Cloud solutions should be of particular interest to organizations with a recurring revenue model and any shared services center ambitions.

When given the opportunity to make order processing faster, cheaper or better, don't be afraid to choose all three.

For more information on this or other research topics, please visit www.aberdeen.com.

Related Research	
From the Shadows to the Forefront: AP Automation and the Strategic Vision; October 2013 *Automated Fund Allocation: Bridging the Efficiency Gap in the O2C Cycle*; July 2013	*Receivables Management for the Long Term: Balancing Collections and Customer Service (Order-to-Cash 2012)*; August 2012 *Mobility and Real Time Event-Driven 'Order-to-Store' Fulfillment*; August 2012

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