Leveraging SAP to Improve A/R to Cash Flow Conversion Efficiency, Lessons Learned

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The **DIFFERENCE** Is **YOU**

Agenda

- Introductions
- Key Learning Points
- Current A/R Challenges
- Standard A/R Management Approaches
- Typical Workflows
- Best Practices Discussion
- Execution of Best Practices
- What Can You Do Next?
- Customer Results

Introductions

- Chris Caparon: VP of Professional Services at Cforia Software
  - Cforia Software: Market leader in A/R automation products

- Tim Cooper: Senior FI/CO Consultant at DataXstream
  - DataXstream is a leader in SAP integration technologies

- DataXstream and Cforia jointly developed an SAP certified connector between SAP and the Cforia platform

Key Learning Points

- Well managed A/R can have a significant positive impact on the financial health of your company

- More time on EXECUTION, less time on ANALYSIS

- Carefully select and use tools to understand customer A/R behavior and manage them accordingly

Challenges managing accounts receivable in today's economy

Current A/R Challenges

- Accounts receivable is typically a top asset on your company's balance sheet
- Cash flow is a top priority and under pressure
- Staff reductions are common
- Worldwide DSO is expected to increase for the foreseeable future
- Deductions and charge backs from retailers will increase as their margins tighten
- Threat of bad debt is increasing

Standard A/R Management

- A/R Analysts wear many hats and support many business processes, including, but not limited to:
  - Credit & Sales Order hold/release management
  - Collections
  - Deductions and Disputes management
- Each process requires different workflows
- Systems are geared towards transaction processing and posting to the general ledger

What tools are used today to manage this strategic asset?

Standard A/R Management (cont'd)

MS Outlook/Notes
- Ticklers
- Collaboration
- Contacts

SAP
- Notes
- Contacts
- AR Inquiries
- Invoice reprint
- Order hold/release
- Credit limit changes

Word
- Letters
- Internal collaboration

Paper
- Aging reports
- Statements
- Notes
- Ticklers
- Deduction folders

Excel
- Account analysis
- Internal collaboration
- Deductions

Internet
- POD's
- Banking information
- Customer web sites

Fax Machines
- Collaboration

Imaging Systems
- Documentation

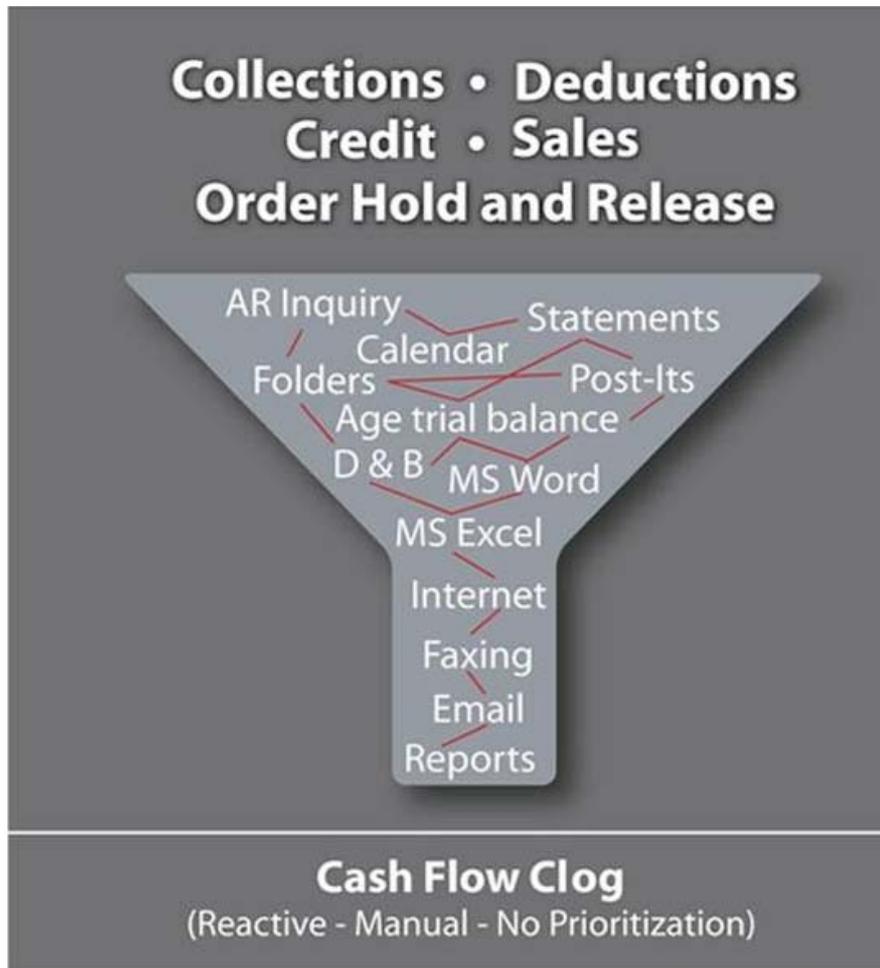**Network Drives**
- Store customer information

Credit
- eRam, etc.

Others

Standard A/R Management (cont'd)

Managing A/R without workflow is chaos

**Collections • Deductions
Credit • Sales
Order Hold and Release**

AR Inquiry
Statements
Calendar
Folders
Post-Its
Age trial balance
D & B
MS Word
MS Excel
Internet
Faxing
Email
Reports

Cash Flow Clog
(Reactive - Manual - No Prioritization)

Current State

- Majority of time spent analyzing instead of executing steps to maximize cash flow and avoid bad debt

- Multiple systems & applications running on multiple screens

- Manual report driven process

- Constant toggling between multiple systems & screens

Standard A/R Management (cont'd)

A/R organized into three separate workflows

Credit - Collections Deductions & Disputes

CREDIT
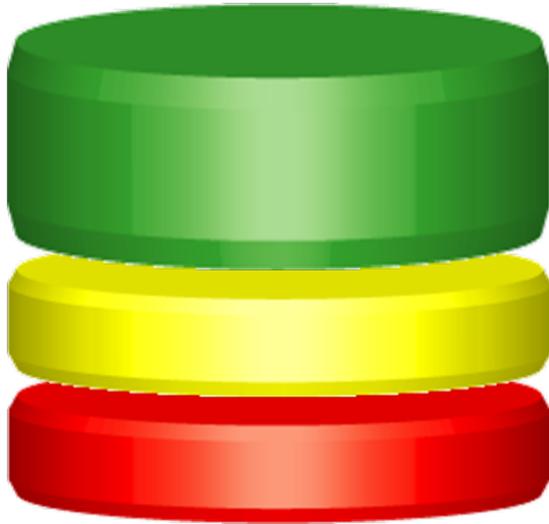COLLECTIONS
DEDUCTIONS

Cash Flow Optimized

Advantages

- Majority of time is dedicated to execution

- Segmenting A/R workflows reduces toggling between screens and systems

- Embedded reporting reduces manual data entry

Best Practices Discussion

Lessons learned translated into business process workflow

BP1: Segregate Clean and Dirty Receivables

Collectables: Clean receivables

Disputes: Dirty receivables

Deductions: Dirty receivables

- **Clean Receivables**
  - **Collectables** : transactions that are not disputed & whose receipt can be forecast

- **Dirty Receivables**
  - **Disputes** : transactions that are disputed and not paid

  - **Deductions** : transactions that are customer debits

BP1: Segregate Clean and Dirty Receivables (cont'd)

- Segregate your clean and dirty receivables to optimize collections and deductions efficiency
- Segregate your clean and dirty receivables to accurately age your accounts

BP 2: Establish Policies at Customer versus Parent Levels
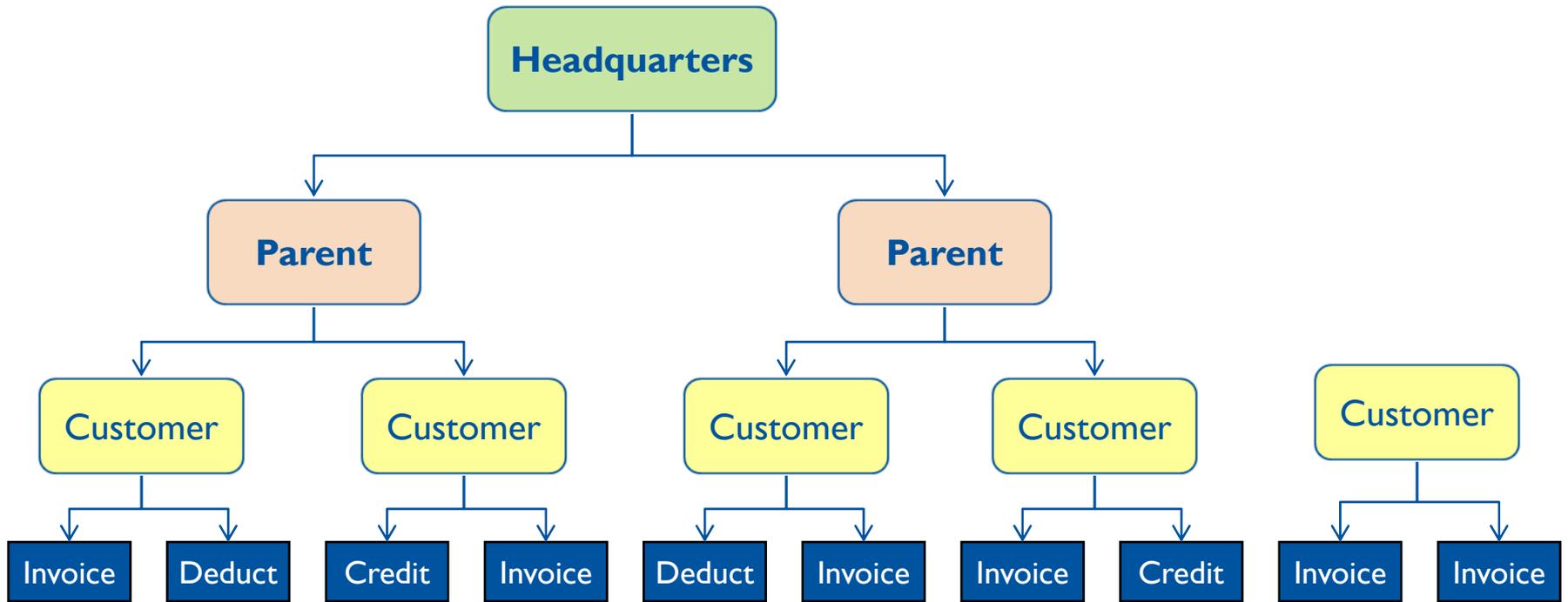
Not all customers are created equal

BP 2: Establish Policies at Customer versus Parent Levels (cont'd)

- Customers tend to be managed by credit limits and held order management
  - Deductions are typically not an issue
  - Excellent candidates for A/R automation via letters
- Parent accounts tend to be managed by portfolio balances
  - Deductions are common
  - Not good candidates for A/R automation

BP 3: Segregation of Duties to Improve Performance

- Specialization leads to excellence
  - Sales order hold & collections management
  - Deductions management
  - Credit analysis
- Build familiarity with customers and their behavior
  - Personal relationships
  - Able to spot trends early

BP 4: Minimize Nuisance Credit Holds

- Unnecessary credit holds and credit reviews undermine both internal and external credibility

- Disrupt and slow order fulfillment
  - Ensure your system's credit checking logic matches your credit policy
  - Be voice for change from the real world: make policy and procedure match
  - Root cause analysis
  - Identify repeat offenders

BP 5: Use Days Beyond Terms to Measure Performance

- Use DBT (Days Beyond Terms) instead of DSO (Days Sales Outstanding) to measure performance
  - DSO's sales component distorts performance
    - Open AR / Sales per day
  - Days Beyond Terms is not arbitrary
    - Pay date – due date for all clean receivables
    - A good predictor of future behavior

BP 6: Optimize Collector Efficiency

- Collectors / Analysts need instant access to A/R information
  - High work volumes require process efficiency
  - Reduce cycle time, improve throughput rate
  - Minimize the number of places to go for relevant information
  - Summarized, configurable, single screens are ideal
  - Make information content pertinent to task at hand
  - Calls are meaningful and professional, minimize hassle factor for payee, no fumbles

BP 7: Prioritize Deductions & Disputes

- Prioritize deduction and disputes activities based on value and type
  - It is essential to mine out discretionary deductions from the non-discretionary ones like trade fund promotions and rebates
  - Discretionary deductions can be re-invoiced if resolved within the customer's dispute window
    - Involve collaborators. Deductions are resolved in A/R but often originate upstream in the business process.

BP 8: Create KPI / Scorecard For A/R Processes

- Create a set of Key Performance Indicators (KPI) and score card for your accounts receivable process
  - Collector efficiency
  - Days Beyond Terms tracking
  - Deductions re-invoicing vs. credit rate
  - Deduction write off by type and stakeholder
  - Number of customer touches per collector
- Work back to root causes of issues

Best Practices Discussion

Execution of Best Practices

Enhanced A/R Workflows

Credit - Collections
Deductions & Disputes

CREDIT COLLECTIONS DEDUCTIONS

Cash Flow Optimized

- **Deduction & Dispute Management Workflows**
  - Prioritized item list by value/type
  - Root cause tracking
  - On-line collaboration with involved business partners

Enhanced A/R Workflows (cont'd)

Credit - Collections
Deductions & Disputes

CREDIT
COLLECTIONS
DEDUCTIONS

Cash Flow Optimized

- **Credit Management Workflows**

  - Order release management
    - Promise-to-Pay

  - Credit limit checking optimization

  - DBT trending and consumption of credit limit to alert on customer liquidity issues

  - Tight integration with Credit Agencies

Enhanced A/R Workflows (cont'd)
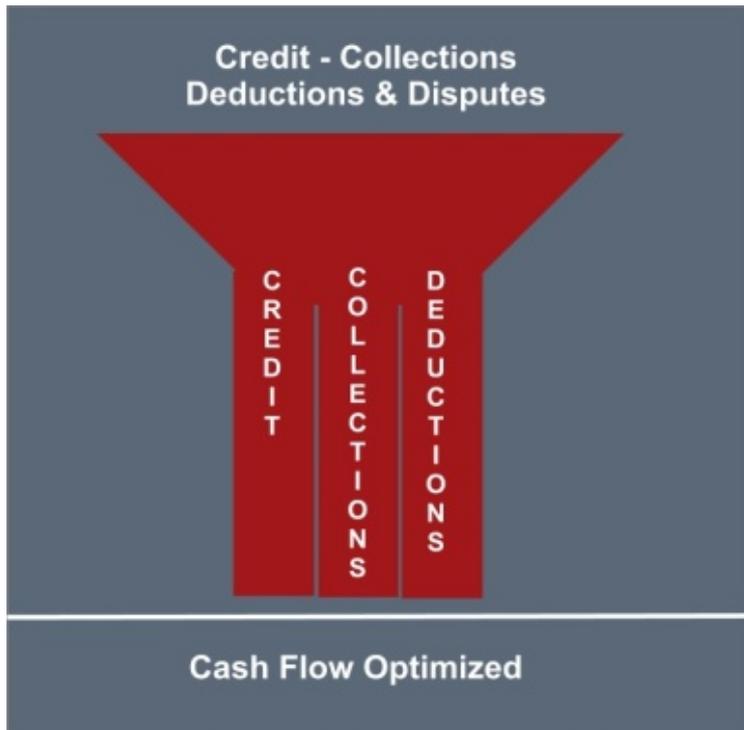
- **Collection Management Workflows**

  - Planning engine for accounts receivables

    - Appropriate aging calculations

    - Account segmentation (all customers are not created equal)

    - Call list generation

    - Letter generation

    - Tickler engine and follow up system

  - Customer self-service EIPP

What Can You Do Next?

- Consider these best practices with an open mind and see what you think works for your situation

- Consider your native SAP capabilities

- Consider FSCM

- Consider a third party tool like Cforia, tuned for A/R collections efficiency, as a complementary product

Typical Value Derived from A/R Optimization

- Improve DSO by 10% – 20%

- Increase the recovery rate of deductions by 4% – 8%

- Reduce bad debt as a percent of sales by .01%

- Reduce headcount through efficiency

- Recovery of 1% of revenue previously lost through deductions is equivalent to adding a significant amount of sales

Customer Success Stories

- Napa Auto Parts
  - 20% DSO reduction yielding 7 figure annual benefit
- Ashley Furniture
  - Sales grew from 860 million to $3.5 billion while AR headcount was reduced by 20%
- Club Car
  - Collection efficiency increased 32% yielding a first year $500K benefit
- Ferrero Inc. (Tic Tacs, Nutella, Rocher)
  - In first six months, while sales increased 25%, DSO decreased by 20%, headcount by 25%
- Typical customer sees a minimum DSO reduction of 10% in first year
  - ROI's measured in months

Sample of Customers Using Best Practices

Key Learnings

- Well managed A/R can have a significant positive impact on the financial health of your company

- More time on EXECUTION, less time on ANALYSIS

- Use tools to understand customer A/R behavior and manage them accordingly

- Explore and find what works for your company

Further Information

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A "Green" Learning Event

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