MACRO|4
A Division of UNICOM®Global

Automating the Order to Cash Process

How to deliver a stronger financial performance at lower cost in sales order processing, invoicing, credit management and cash allocation

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1 Introduction and Overview

For every organisation 'cash is king'. These days the chief finance officer or finance director is under sustained pressure from the board of directors to improve working capital and profitability while minimising bad debt expense. One way to achieve these goals quickly is by rationalising the order to cash process.

The activities involved in taking customer orders and turning them into revenue can be categorised in four broad areas: sales order processing (which includes order fulfilment and distribution), invoicing, credit management and cash allocation. While critical to the smooth running of any business, all stages of the order to cash process are characterised by time consuming, manual tasks which rely on paper documents and can be prone to human error. This presents a significant opportunity for business process improvement.

By moving from paper to electronic documents and introducing greater automation the finance director can increase speed and efficiency and generate important benefits both for the finance department and the company as a whole. Cash flow, days sales outstanding (DSO) and other key performance indicators are improved. There is also a significant reduction in costs. People and resources are freed up for other tasks, while delivering invoices and other financial documents electronically generates savings from lower print, paper and postage costs.

The benefits also extend to customer retention and revenue protection. Customers are happier and therefore less likely to defect to the competition because they find the company easier to deal with: their orders are processed faster; they are no longer chased for invoices they have already paid and they can receive invoice documents and data electronically, with the additional benefit of being able to upload it directly into their finance systems to eliminate re-keying.

Macro 4 is one of the few companies that can help organisations to increase automation and improve efficiency in all four stages of the order to cash process.

2   Cash Allocation

2.1   The challenge

Cash allocation is relatively untouched by automation in most organisations - partly because it has been viewed as an area that is difficult to automate, and partly because until very recently there were only limited technology solutions available. As cash allocation has been largely overlooked in the past we will start with it here and break with convention by examining the order to cash process in reverse.

To those who are close to it, cash allocation will be recognised as a slow, meticulous and manual task. The process of matching payments received against sales invoices can be very complex. It becomes even more difficult when, for example, multiple divisions of the same company are receiving payments from the same customer or a large number of sales invoices and credit notes are related to a single remittance. The scale of the challenge increases as the volume of cheques, cash, card and BACS payments grows.

The rise of Faster Payments presents another challenge – and an opportunity. Faster Payments are processed within hours, compared with days for a BACS transfer, and will arrive days ahead of the remittance advice which provides a breakdown of what the payment covers. There is the potential for much earlier cash allocation if the finance department can reduce its reliance on the remittance advice. Otherwise the growth in Faster Payments could significantly increase the value of unallocated cash.

Failure to allocate customer payments quickly increases the time it takes to accurately calculate DSO, aged receivables and other key performance indicators. It hinders the credit management task since credit controllers do not know which outstanding sales invoices to chase, resulting in delayed cash collection, plus time wasted chasing customers who have already paid.

At month end and year end the pressure can intensify, with staff having to be temporarily transferred from other departments or other tasks to help ensure all customer payments are allocated in order to meet key performance targets. In bigger organisations the credit management team is under pressure to collect cash to help maximise the cash balances at the half year and year end balance sheet dates.

2.2   How automation can help

A cash allocation system is a new type of application which automatically matches invoices with customer payments made electronically, by cheque or through a branch network, and updates the sales ledger. It reduces reliance on manual cross-referencing of documents – as in most cases supporting documents such as the remittance advice are no longer required – and eliminates manual calculations, resulting in a far faster and more reliable cash allocation process.

2.3 Key benefits of automating the cash allocation process

- *Cash flow, financial control, transparency and compliance are greatly improved by reducing the volume and value of unallocated payments – in some cases from several million pounds to a few thousand*

- *DSO is reduced by identifying unpaid invoices faster and allowing staff and resources to be focused on chasing non-payers*

- *The majority of payments are matched automatically within minutes, generating considerable time and cost savings – month end is no longer a resourcing headache, as there is typically a 60 to 70 per cent reduction in the number of employees allocating cash*

- *The risk of credit controllers wasting time and upsetting customers by chasing invoices that have already been paid is eliminated*

- *Faster, more accurate cash allocation reduces the funds that organisations need to hold as a provision against doubtful debts*

- *Finance staff can devote more time to value added tasks such as credit management and less to the administrative task of allocating cash*

- *Credit control related key performance indicators can be calculated more quickly – and in some cases unallocated cash becomes a negligible figure that no longer needs reporting at all*

- *Financial benefits are achieved typically within six weeks, delivering a very fast return on investment.*

2.4 The Macro 4 solution
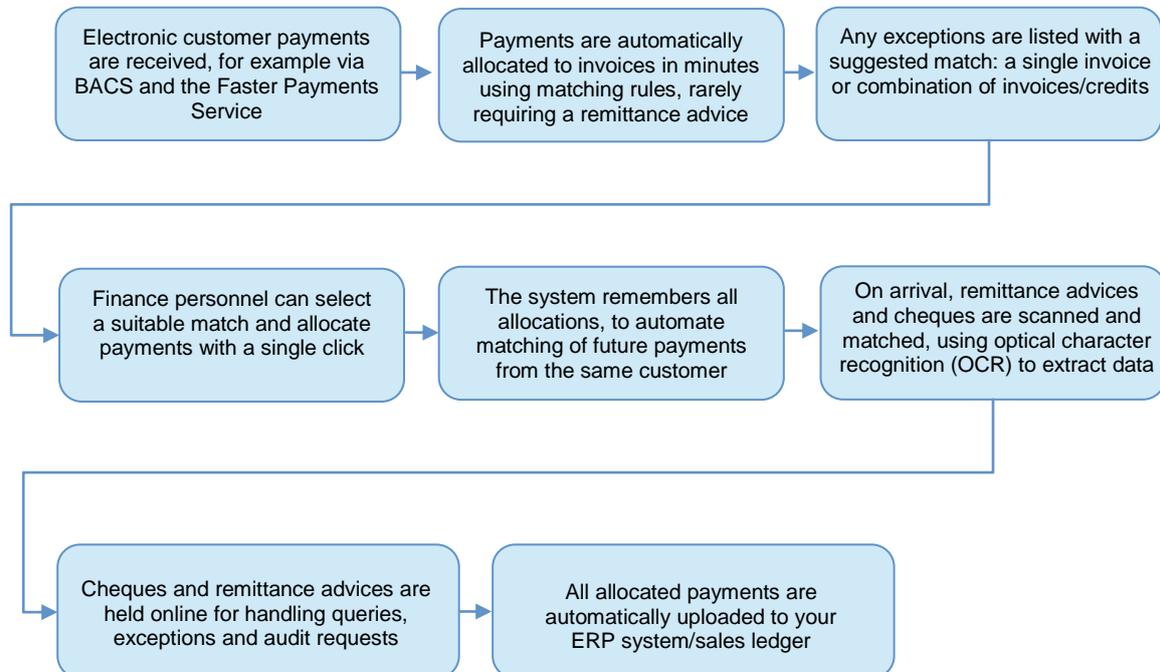
Macro 4's cash allocation module streamlines and simplifies the process of matching customer payments to sales invoices. Payment data is automatically captured from electronic payment notifications and records of cash transactions. Cheques and remittance advices are scanned and relevant payment information, such as customer references and payment values, automatically extracted to enable automated matching with sales invoice data.

A sophisticated software algorithm completes the job of allocating payments to invoices within minutes, using invoice matching rules defined by the finance team. Typically between 85 per cent and 95 per cent of payments are matched immediately. Exceptions are listed with suggested matches, allowing staff to confirm the allocation or 'drill down' for more information. This allows even exceptions to be matched much faster and, because the system actually 'learns' once a match has been made, the number of exceptions declines very quickly.

The majority of electronic payments can be allocated without the need for a remittance advice, eliminating delays due to waiting for the remittance note to arrive by post and enabling the finance department to benefit fully from the Faster Payments Service. At the end of the matching process all allocated customer payments are automatically uploaded to the sales ledger, with any adjustments such as discounts for early payments validated and applied.

Since the system tracks the status of all moneys received throughout the allocation process, it can provide up-to-the-minute performance management information such as how many unmatched payments are still to be actioned at any time.

Specialist modules are available to suit the specific cash allocation requirements of a variety of business sectors including trade wholesalers, FMCG manufacturers, healthcare and asset financing.

2.5 Case study: "Cash allocation? It's no longer an issue"

Since automating its cash allocation process, one large environmental services business has been so effective at reducing the value of unallocated cash that senior management no longer requires the finance team to report it – because it is just not a business issue any more.

During the time the cash allocation solution has been in use, company turnover has also grown significantly and, despite a huge increase in the volume of customer payments, the finance team has still been able to handle the workload with a far reduced headcount in cash allocation.

Statistics	Before	After
Annual value of payments processed	£300 million	£1.6 billion
Peak value of unallocated cash	£9 million	£5,000
Number of staff devoted to cash allocation task	14	4

3 Credit Management

3.1 The challenge

Once late paying customers have been identified, the credit controller's task relies on being able to quickly review relevant sales invoices, proof of delivery (POD) documents and correspondence whilst in a phone conversation with the customer. This allows the credit controller to address any discrepancies or queries, reach agreement on the outstanding amounts to be paid and gain customer commitment to timely payment.

The necessary paper documents are rarely all held in one place, however, and it can take a surprising amount of time and effort to gather them together and to ensure that both parties can see the same information. Delays and inefficiencies frequently occur because new copies of lost or misplaced sales invoices and PODs need to be sent to the customer.

3.2 How automation can help

In an automated system all relevant documents are accessible on screen to the credit controller, and copy documents can be emailed or faxed quickly and easily to customers. Customers can also be offered 24 x 7 self-service access to their copy invoices and PODs - removing the need to send copies at all, and putting paid to any delaying tactics by customers claiming to not have received all of the correct documentation.

3.3 Key benefits of automating the credit management process

- *Debtor days are reduced and cash flow is improved by making the credit control task faster and more effective*
- *Payment delays resulting from customers losing or misplacing documents are eliminated – because copies can be quickly faxed, emailed – or viewed online (see Invoicing, below)*
- *Customer satisfaction increases as payment queries are resolved faster*
- *The overall time and cost involved in the credit management task is significantly reduced*

3.4 The Macro 4 solution

Invoices, credits and statements from your ERP/finance systems are captured automatically and stored online	Credit controllers access your ERP/finance system to view customer payment records	Credit controllers can view relevant documentation linked to outstanding invoices e.g. signed PODs, correspondence
Credit controllers can see when customers have viewed eInvoices on your secure, self-service web portal	Credit controllers can proactively follow up customers who are late viewing invoices with a polite email reminder	Credit controllers chase outstanding invoices with reference to supporting documentation
Copy invoices, signed PODs etc. are emailed or faxed immediately on request, or customers can be directed to your web portal	Customers access the web portal to view and download documents such as invoices and signed PODs	Documents can be reviewed with the customer on the first phone call and payment timescales agreed

Using the Macro 4 credit management module all customer invoices, credit notes and statements can be captured automatically and displayed online for credit controllers to view, in an individual customer folder. POD images can be scanned from paper, or alternatively uploaded from handheld devices. All documents are also linked to corresponding entries in the ERP/finance system.

Finance staff can send copies of relevant documents to customers as email attachments or by fax during the course of a phone conversation. Customers can also be offered self-service access to their invoices and PODs from a secure web portal and this gives credit controllers the ability to see which customers have and have not viewed their invoices, and prioritise calls accordingly. In addition, a chasing call can be automatically triggered if an invoice has not been viewed within a specified time frame, providing greater scope for proactive credit management.

3.5 Case study: online PODs result in fewer unpaid invoices and improved cash flow

For a food distribution company, implementing a solution to allow online access to signed Proof of Delivery (POD) documents has delivered a reduction in unpaid invoices, faster resolution of queries (leading to faster payments and improved cash flow) and staff time savings.

The company is the 'middle man' that delivers produce from manufacturers to major retailers, so the manufacturers pay the company based on goods listed on signed PODs – and the retailers pay the manufacturers using the same information.

Scanned PODs are held on a secure web site where the manufacturers, retailers and the company's own billing staff can access them online to check exactly what has been delivered. In addition to credit control, cash flow and productivity gains, the system has resulted in improved customer service and the renewal of lucrative retailer contracts.

4 Invoicing

4.1 The challenge

The traditional practice of printing and mailing paper invoices incurs significant costs, has a negative impact on the environment and delays their arrival by several days. The cost situation is set to worsen, as recent significant postal price rises for personal and business customers in the UK will almost certainly be followed by more increases in years to come.

The wider challenge faced by organisations is one of increasing competitive pressure to offer customers a wider range of options for invoice delivery. Customers may want - or even insist on - the convenience of accessing invoices online or by email and are attracted by the option of uploading invoice data directly into their own financial systems as it avoids the time and effort of re-keying information. In a competitive market, failure to provide these options could ultimately result in customer defections.
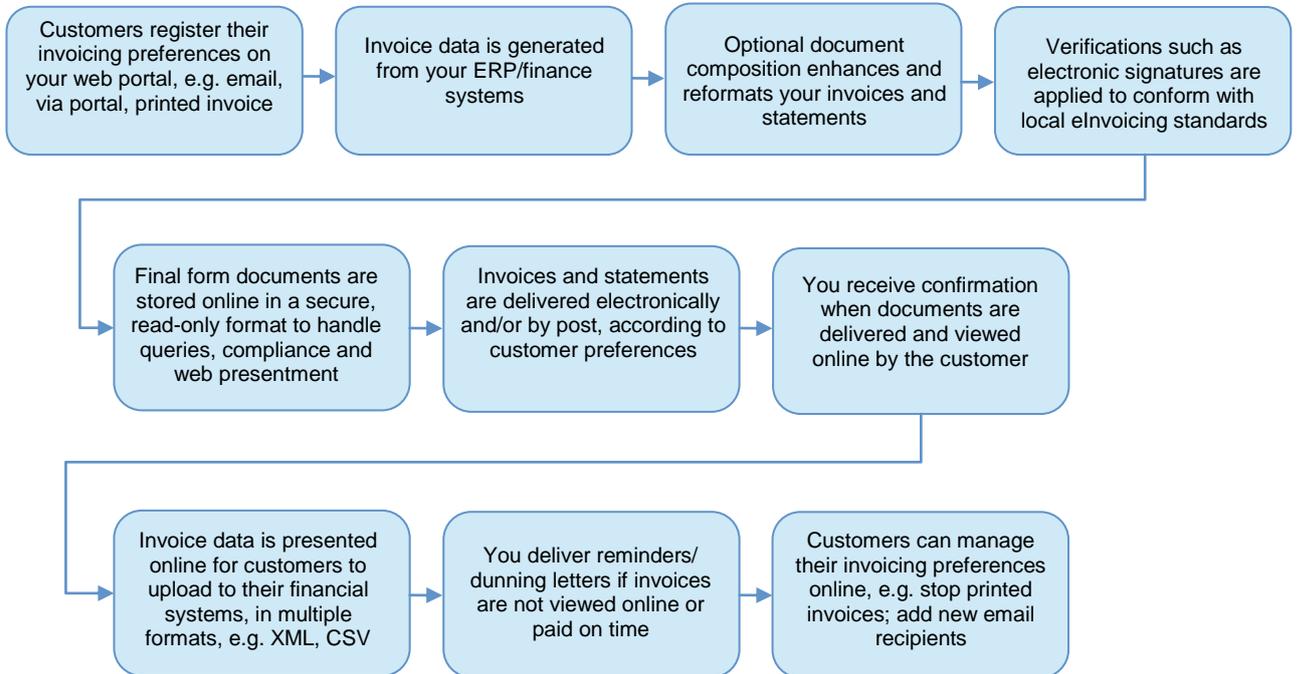
4.2 How automation can help

Automation comes into its own where it marries together core business systems - including legacy financial systems - with new multi-channel delivery capabilities to send invoices, statements and other relevant correspondence as email attachments or links, or to allow customers to view their invoices and invoice data via a secure online portal, while continuing to print paper invoices as required. This approach enables suppliers to benefit from reducing printing costs quickly and cost effectively, without the need for enhancements to their existing finance systems. Providing the flexibility to meet individual customer delivery preferences in this way also enables a phased migration from print to electronic invoicing that keeps pace with every customer's needs.

4.3 Key benefits of automating the invoicing process

- *Paper, printing and mailing costs are immediately reduced by switching to electronic delivery*
- *Payment delays can be reduced and cash flow improved by ensuring the prompt arrival of invoices, statements and dunning letters*
- *Customer satisfaction and retention increases because sales invoice documents and data are now delivered using the channels customers prefer*
- *Less time is spent servicing invoice queries and requests for copy documents as customers can access electronically all invoice-related information, such as signed PODs and correspondence*
- *Fewer paper documents are produced, which reduces the organisation's environmental impact and improves its 'green' credentials*

4.4   The Macro 4 solution

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┌──────────────────┐   ┌──────────────────┐   ┌──────────────────┐   ┌──────────────────┐
│ Customers register│   │ Invoice data is  │   │ Optional document│   │ Verifications such│
│ their invoicing   │──▶│ generated from   │──▶│ composition      │──▶│ as electronic    │
│ preferences on    │   │ your ERP/finance │   │ enhances and     │   │ signatures are   │
│ your web portal,  │   │ systems          │   │ reformats your   │   │ applied to       │
│ e.g. email, via   │   │                  │   │ invoices and     │   │ conform with     │
│ portal, printed   │   │                  │   │ statements       │   │ local eInvoicing │
│ invoice           │   │                  │   │                  │   │ standards        │
└──────────────────┘   └──────────────────┘   └──────────────────┘   └──────────────────┘
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Customers register their invoicing preferences on your web portal, e.g. email, via portal, printed invoice → Invoice data is generated from your ERP/finance systems → Optional document composition enhances and reformats your invoices and statements → Verifications such as electronic signatures are applied to conform with local eInvoicing standards

Final form documents are stored online in a secure, read-only format to handle queries, compliance and web presentment → Invoices and statements are delivered electronically and/or by post, according to customer preferences → You receive confirmation when documents are delivered and viewed online by the customer

Invoice data is presented online for customers to upload to their financial systems, in multiple formats, e.g. XML, CSV → You deliver reminders/ dunning letters if invoices are not viewed online or paid on time → Customers can manage their invoicing preferences online, e.g. stop printed invoices; add new email recipients

Macro 4's eInvoicing module captures invoice and statement output produced by an organisation's current ERP/financial system and transforms it into electronic documents, allowing customers to choose the electronic delivery channel(s) which suits them best by registering their preferences on a secure web portal. The customer can also continue to receive paper invoices where required.
eInvoices can be sent as attachments in emails to one or more email addresses and/or viewed on the web portal by the customer.

Invoice data can be provided in a variety of formats for upload into customers' financial systems to avoid manual re-keying.

The look and feel of the invoices and statements generated by the current billing systems can be enhanced for electronic or online presentment, with the flexibility to add customer-specific marketing messages.

Authorised finance and customer service staff can also be given access to support credit management and prompt resolution of inbound queries.

4.5 Case study: customer demand for invoice data drives millions of Euros in savings

A global express delivery company now sends around 40 per cent of its invoices using eInvoicing - which enables customers to access invoices online via a secure web site. It all began when customers started demanding their invoice data electronically so they could upload it directly into their business systems. Now, the company delivers around 7.5 million eInvoices a year, which is estimated to save around €3m annually in printing and postage costs.

5 Sales Order Processing

5.1 The challenge

Despite its critical role in delivering revenue - get it wrong and customers may never return - sales order processing generally remains a process that is highly manual and therefore vulnerable to mistakes. Purchase orders typically come into an organisation by email, fax, mail, through a web site or over the phone. Order information is then manually entered into the ERP or finance system to enable the generation of the sales orders, warehouse picking lists and PODs that drive the fulfilment process. Re-keying data by hand is slow and cumbersome. Bottlenecks during busy times can create delays in getting orders to customers, while errors can cause confusion and incorrectly fulfilled orders.

5.2 How automation can help

Order information can be automatically captured from incoming documents and transferred to the ERP or sales and distribution system for the automated creation of sales orders and related documentation, reducing errors and manual effort.

Assured delivery software ensures that critical documents such as picking lists and delivery notes are reliably printed at the correct warehouse location and can be automatically re-routed, and users notified, in the event of a printer problem, eliminating a potential weak point in the process that could lead to delivery delays.

5.3   Key benefits of automating sales order processing

- *Orders can be processed faster, with no manual keying errors, and with fewer staff required*
- *Delivery delays are avoided as key documents such as pick lists and PODs are always directed reliably to the warehouse via print or electronic channels*
- *Product returns are minimised because there are fewer delivery errors and orders can be dispatched quicker*
- *Brand image is enhanced and customer loyalty increased by providing a more responsive order fulfilment service*

5.4   The Macro 4 solution
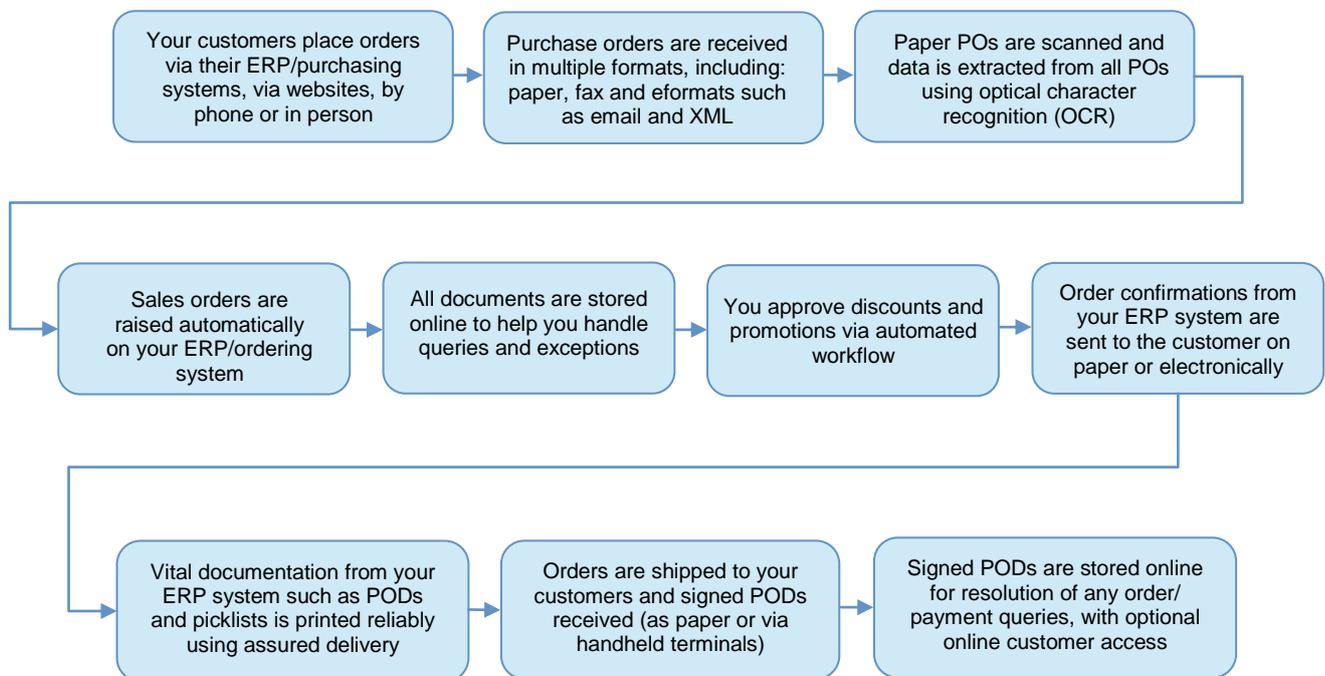
Macro 4's sales order processing module uses Optical Character Recognition (OCR) technology to automatically identify and extract the relevant order and customer information from incoming purchase order documentation and transfer it to the ERP or finance system, allowing orders to be processed swiftly.

Once the order has been captured an integrated assured delivery feature controls delivery to multiple channels, ensuring that documents such as warehouse pick lists and PODs generated by the ERP or Finance System are reliably and accurately directed to their destinations – either as print or electronic documents – in order to drive fulfilment and other downstream business processes.

Electronic copies of all documents, including purchase orders, order confirmations and signed PODs are stored in a secure repository where they can be accessed on screen by staff to handle exceptions and queries.

6   Why Choose Macro 4 for Order to Cash Automation?

Macro 4 has over fifteen years' experience of implementing technology to automate the order to cash process. We are one of the few companies to deliver an integrated solution to address the four key areas: sales order processing, invoicing, credit management and cash allocation.

Our modular offering allows you to start introducing greater automation into a single process within the order to cash function, such as cash allocation. As you see improvements being delivered, you can choose to build on this progress and deliver cost and efficiency benefits in the other areas. Macro 4's solutions are quick to implement, adaptable to meet the needs of a wide range of industry sectors and organisation profiles and deliver quantifiable benefits. They can work with any existing ERP/ Finance system and have more SAP certifications that any other comparable software and solutions provider.

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About Macro 4

Macro 4 is a global software and services company that helps organizations to improve the performance of their business-critical applications and processes. The company's solutions for document and data management, fault analysis and performance management are easy to use, fast to implement and deliver value quickly in even the most complex IT environments. Macro 4 is a division of UNICOM Global, which operates in every major market worldwide via US and European subsidiaries and a network of international business partners.

For more information on Macro 4 products and services visit www.macro4.com.

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