4 Ways Senior Executives Benefit from Order-to-Cash Automation

An AR & O2C white paper

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Stiff economic headwinds have the potential to blow businesses off their financial moorings.

Among these headwinds is the recent spike in economic volatility to a five-year high, as determined by Goldman Sachs' *U.S. Financial Conditions Index*, which tracks changes in interest rates, credit spreads, equity prices, and the value of the dollar. In particular, the strong value of the U.S. dollar has weighed on exports and the financial performance of businesses with an international presence.

The stakes have never been higher for businesses: 50 percent of Fortune 500 companies have been acquired, gone bankrupt, or ceased to exist since 2000, according to *Forbes* magazine.

In an environment of increasing economic uncertainty, The Hackett Group reports that businesses are striving to improve agility and find new ways to innovate. In response, finance is migrating from its traditional tactical role to one as a strategic partner of the business in achieving its objectives. More than 75 percent of finance executives report that their highest priority is supporting the execution of the business' strategy, which includes growth and innovation, according to The Hackett Group.

PriceWaterhouseCoopers (PwC) notes that finance executives are expected to play four roles to help their business be successful:

1. **Steward:** preserving the assets of the organization by minimizing risk
2. **Operator:** running a tight finance operation that is efficient and effective
3. **Strategist:** helping shape overall strategy and direction
4. **Catalyst:** instilling a financial approach and mindset throughout the organization to help other parts of the business perform better

Given these four roles, a growing number of finance executives are rethinking their paper-based approach to the order-to-cash (O2C) process.

Finance executives are increasingly recognizing that manual O2C processes are holding them back from fulfilling their role as a corporate steward, operator, strategist, and catalyst - especially while navigating their business through economic headwinds.

Closed-Loop Commerce Networks

Order-to-cash remains a largely manual and paper-based affair. Only 12 percent of businesses surveyed for IOFM's *Benchmarks: AR/Order-to-Cash Integration, Automation and Performance* study said their business has deployed an electronic invoicing platform, and only 17 percent of those surveyed have implemented a customer portal.

Automating O2C for a closed-loop business-to-business (B2B) commerce network is the catalyst that empowers finance executives to have greater influence on corporate bottom-line performance.

A closed-loop commerce network is a private, one-to-many system where a single connection enables many buyers and sellers to securely transact with each other. These networks digitize and automate the O2C cycle with capabilities for credit and collections management, e-payment remittance and dispute resolution.

Fully digitized and automated closed-loop commerce networks minimize repetitive, error-prone and labor-intensive O2C tasks, freeing finance leaders to focus their efforts on strategic, high-value activities such as cash forecasting, budgeting, trend analysis, working capital management, and spend management. Automated O2C strengthens billing controls and can support various combinations of legal, technical, and process requirements for conducting business globally. By integrating order management with billing, dispute management and reporting, finance executives are empowered to make informed decisions about cash and sales trends.

O2C automation is a key attribute of a top-performing finance department, which runs at 40 percent lower cost as compared to their median peers and spend 20 percent more time on analysis to achieve improved insight into leading market indicators, according to data from over 400 PwC global client engagements.

56% of finance executives
believe that improved technology would make financial processes more effective, according to PwC's financial benchmarking data.

Importantly, fully digitized and automated O2C processes can deliver the tools finance executives need for their diverse and challenging roles as a corporate steward, operator, strategist and catalyst for their network of buyers and sellers. Here's how:

Steward

Finance executives must ensure that their policies and procedures are in compliance with professional standards and government regulatory requirements. Even unintentional violations of laws, regulations and mandates can result in severe fines and reputational harm. In some Latin American countries, businesses risk fines equivalent to 3 percent of sales for inaccurate submissions involving the country's value-added tax (VAT).

Eight percent of financial professionals surveyed by IOFM in 2015 identified improved compliance and security as the top benefit of automating billing and accounts receivable processes.

Automated O2C processes strengthen business controls around invoice content, authenticity of invoice origination, the integrity of content across the cycle, and archival data.

Sellers transmit invoices through the network via electronic data interchange (EDI), extensible markup language (XML), flat file or other formats, in accordance with regulatory requirements and customer requests. Regardless of the invoice delivery format, an automated, closed-loop commerce network provides real-time visibility into the status of invoices. Transactions can be instantly viewed through a cloud-based portal where both sellers and buyers can access audit trails for all incoming and outgoing payments across the commerce network.

Fully digitized and automated closed-loop commerce networks ensure contract compliance by:

- Importing pricing catalogs into the network
- Categorizing products based on manufacturer, part number, part type, price and other factors
- Enabling administrators to create and modify price files for individual items and groups of items, and specifying pricing terms tailored to each buyer
- Setting business rules for markups, markdowns and rebates

Every invoice that enters the network is validated against a price file or contract and matched against a purchase order (PO) and advanced shipping notice (ASN). Any discrepancies are automatically flagged in the portal for further review.

Reporting options show buyers how much they pay for individual items and allow the buyer to monitor supplier performance in meeting contracted rates.

All of this helps position the finance executive as a corporate steward.

Operator

Manual processes make it difficult for finance executives to run an efficient and effective operation.

In financial reporting, inadequate systems and processes result in over 40 percent of employee time being spent on activities that could be automated, according to PwC's financial benchmarking data. In accounts receivable, 13 percent of employee time is spent on activities that could be automated, PwC has found.

Organizations can eliminate the inefficiencies of paper-based order entry, billing and payments by digitizing the exchange of documents and data across the network.

In an automated O2C network, invoice data is normalized and a single electronic invoice is created and transmitted to the buyer. Replacing paper billing eliminates the chances of lost or mis-keyed invoices - the top cause of buyer phone calls, according to IOFM. Three-way matching of the PO, ASN, and invoice is completed and results are accessible through a cloud-based portal. The most advanced O2C platforms facilitate electronic payments between sellers and buyers. E-payments allow organizations to validate price quotes and payments to ensure that all buyers pay the correct price regardless of their location.

33% of finance executives
believe that redesigned workflows would make financial processes more effective, according to PwC's financial benchmarking data.

Automated O2C networks can integrate with a variety of enterprise resource planning (ERP) platforms and accounting systems. The ability of these networks to send and receive electronic data in a variety of formats eliminates the need for buyers and sellers to make significant IT investments to adhere to inflexible standards.

The interoperability provided by some O2C providers eliminates the need for suppliers to manage hundreds of different electronic data interchange (EDI) systems used by their buyers. Companies can automatically normalize document data to facilitate the electronic exchange of information with their vendors/distributors and end purchasers

Importantly, sellers can centralize their billing for their national account customers on a single bill. All national account purchases by a particular buyer appear on a single invoice, no matter where, when or how many purchases were made.

Automated, centralized billing streamlines operational tasks, reduces the possibility of duplicate bills, and potentially accelerates a seller's DSO given that buyers only remit a single payment to cover all purchases.

Centralized billing also ensures that everyone in a buyer's organization is extended the same price and contract terms for a particular product regardless of where they make the purchase. Ensuring universal price controls is especially important for suppliers with distributors that may have thousands of sales locations across the U.S.

Buyers benefit from the convenience of receiving an electronic bill, faster invoice validation and approval, and the ability to make a single payment for multiple purchases.

It is no wonder that 39 percent of senior finance executives surveyed by CFO Research identified streamlined business process execution as the most important benefit of modernizing financial operations, while 31 percent of those surveyed cited lower costs as the top benefit of operational modernization.

IOFM's *Benchmarks: AR/Order-to-Cash Integration, Automation and Performance Metrics* study found that accounts receivable departments are increasingly centralized.

Strategist

Businesses are increasingly looking to the finance department to help identify strategic business opportunities. Eighty-three percent of CIOs believe that their company's data is a valuable asset that is not being fully utilized within their organization, according to a study by Experian Information Solutions. Sixty-four percent of CIOs surveyed said their company is not optimizing the data gathered to move the business forward.

Moreover, Experian found that poor data management is creating a number of other challenges:

- Potentially higher risk for data-driven projects
- Increasing costs due to poor data quality
- Onerous regulatory compliance
- Inadequate reporting

PwC warns that finance teams that do not respond to increased demands for data management will see their role as custodians of trusted information analysis taken over by other parts of the business.

Fully digitized and automated O2C networks can energize the advanced analytics capabilities necessary for finance leaders to fully exploit the value of transactional data. Executives can access the line-item level data they need for forecasting and business decisions.

Closed-loop commerce network solutions securely store all O2C information while providing users with real-time visibility into the payment process and 24/7 access to data via a desktop or mobile device. Twenty percent of businesses surveyed by IOFM in 2015 identified robust security as a critical capability of accounts receivable solutions.

Order management is one area where finance executives benefit from this enhanced visibility. Only 10 percent of businesses surveyed for IOFM's *Benchmarks: AR/Order-to-Cash Integration, Automation and Performance Metrics* study have deployed an automated order-entry solution.

Automated, closed-loop commerce networks provide a secure portal where finance executives and other authorized users can instantly see the status of PO, shipping notices and invoices. The three-way matching capability automatically flags any discrepancies between the totals or line-items on the PO, ASN and invoice, enabling users to take action and escalate the matter. An extensive menu of order management reports provides visibility and analytics tools for buyers, buying groups (such as GPOs), and suppliers. Below are examples of questions that can easily be answered for each party in the network:

Buyers:

- How much are we buying from each supplier?
- Which suppliers deliver fastest?
- Which suppliers fill orders most accurately?

Buying Groups / GPOs:

- Which members are buying the most?
- Which items are the most popular?
- What are the emerging buying trends?

Suppliers:

- Who are our top buyers?
- Where are our buyers located?
- Which items are in demand?

This centralized view of information enables sellers have full visibility into their distributor network and to intelligently target marketing initiatives based on insights into sales trends (such as seasonality). Demand forecasting is made possible with a single source of spend data for an entire network. O2C cycle transparency enables distributors to optimize inventory by tracking year-over-year sales by product or category to better understand customer purchasing history and align staffing with sales cycles. For a group purchasing organization (GPO), automated O2C processes can offer powerful predictive analytics on its membership. GPOs can thus strengthen their position during supplier contract negotiations because they have full visibility into each member's purchases.

It is no wonder that 37 percent of finance executives surveyed by CFO Research cited better forecasting and budgeting to achieve corporate goals as the top benefit of operational improvements.

45% of businesses
see value in taking a process-specific view of O2C processes to uncover ways of realigning activities for greater integration, IOFM finds.

Catalyst

Businesses want their finance executives to be a catalyst for better results across the enterprise. Improving cash flow is one way that finance can contribute to improved enterprise performance.

Tight credit continues to impact cash flow, particularly for small and mid-sized businesses (SMBs). More than one in ten small and mid-sized businesses must wait at least 90 days to get paid by their suppliers, a 2015 study by Red Dot Research found.

More than half of the unpaid invoices that small and mid-sized businesses are owed are overdue.

The number one issue resulting from late payment of invoices, as reported by 39 percent of firms surveyed by MasterCard, is trouble paying salaries – a situation no business wants to be in. Paying suppliers (36 percent), capital spending and investments (36 percent) and overall financial security (36 percent) are the other areas most impacted by slow payments, according to MasterCard. In fact, 23 percent of businesses surveyed by Red Dot Research say that late payments have put them at risk of closure. The issue was most acute in the technology sector, where almost one-third of all businesses had been adversely impacted by late customer payments.

With *channel finance* – a subset of supply chain financing that is facilitated by an automated closed-loop commerce network – sellers receive payment within a relatively short, proscribed time directly from a channel finance provider, such as a venture capital firm, private equity firm, large corporation or O2C solution provider. The channel finance provider takes on the responsibility of collecting payment from the buyer.

When a customer makes a purchase, an invoice is entered into the channel finance provider's system. Some channel finance providers integrate with a seller's point-of-sale system for payment. The distributor is guaranteed payment for that invoice within an agreed-upon term, less a nominal discount to the channel finance provider. The network then creates an electronic invoice for the customer's full purchase amount, which pays the channel finance provider directly. All invoices and payments are digitally archived.

Channel finance enables SMBs to access the credit and cash they need to grow their business, faster than waiting on customer payments, and more affordably than incurring additional debt with a bank. Channel finance should not be confused with factoring, wherein the owner of a receivable sells it at a large discount, often because the debt is deemed too difficult to collect.

Thirty-two percent of small and mid-sized businesses use bank loans to access operating capital while they wait for payments from suppliers, according to The Milken Institute's report, *Access to Capital: How Small and Mid-sized Businesses are Funding Their Future.* Similarly, 10 percent of the small and mid-sized businesses have used loans from non-bank lenders for operating cash.

Channel finance benefits all members of the B2B ecosystem:

Manufacturers: Improve the loyalty and financial soundness of their dealer networks

Distributors: Gain confidence to invest in their business

Customers: Access to flexible and simple purchasing credit

It is no wonder that businesses are looking beyond traditional banks for financing. Thirty-four percent of businesses have used supply chain financing to improve their cash position, according to MasterCard. Additionally, since the global recession in 2009, the supply chain financing industry has more than doubled in size, according to research by Factors Chain International.

41% of buyers plan to deploy
supply chain financing solutions within the next two years, according to *Ardent Partners' ePayables 2015: Higher Ground* report.

The credit management function found in some closed-loop O2C networks is a catalyst for corporate growth because it provides real-time customer credit status and credit reviews. Automating the process of checking a customer's credit reduces the odds of overextending credit or mistakenly putting a great sales opportunity on a credit hold. Tracking the credit ratings of existing customers in real-time enables sellers to move ahead with a sale or re-negotiate terms without delay.

Conclusion

Businesses face significant economic headwinds ranging from tight credit to increasing financial regulation and turbulent markets. For some businesses, these economic headwinds will be a long-term impediment to growth. But savvy businesses are leveraging their finance executives to help the organization navigate these challenges by better understanding the implications of sales and cash flow trends for their businesses and turning financial threats into competitive advantages. As a result, finance executives must fill four diverse and challenging roles: corporate steward, operator, strategist, and catalyst. A fully digitized and automated O2C system addresses these functional needs through improved business controls, centralized billing, order entry, and channel finance. All of this helps finance executives – and the businesses they serve – succeed.

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The AR & O2C Network is the leading provider of training, education and certification programs specifically for Accounts Receivable, Order-to-Cash, Global and Shared Services professionals.

Membership to the AR & O2C Network **(www.aro2c.com)** provides comprehensive tools and resources to financial operations professionals who manage or are deeply involved in the Accounts Receivable and Order-to-Cash process.

Topics include Accounts Receivable and Order-to-Cash Policies, Managing Customer Information, Process Automation Technologies, AR Compliance (Sales & Use Tax, Canadian Tax, Sarbanes-Oxley, Escheatment, Government Restriction Lists and Uniform Commercial Code), and Accounts Receivable and Order-to-Cash management issues.

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Nearly 10,000 professionals have been certified as an Accredited Receivables Specialist or Manager (available in English, Simple Chinese and Spanish) through the AR & O2C Network and its parent company, the Institute of Finance & Management.

AR & O2C Network also hosts the annual Accounts Receivable & Order-to-Cash conference, designed to facilitate education and peer networking.

AR & O2C Network is produced by the Institute of Finance and Management (IOFM), which is the leading organization providing training, education and certification programs specifically for professionals in Accounts Payable, Procure-to-Pay, Accounts Receivable, and Order-to-Cash, as well as key tax and compliance resources for Global and Shared Services professionals, Controllers and their F&A teams. With a universe of over 100,000 financial operations professionals, IOFM is the trusted source of information in the rapidly evolving field of financial operations.