



Adopt a Holistic Approach to Raise Collections to the Next Level

An Aceva Whitepaper

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If you are dedicated to improving cash flow, you must look beyond your firm's collection function for solutions. Every stage in the quote-to-cash process impacts collections, so improvements to that process provide opportunities to dramatically enhance the value and performance of your receivables.

The State of Credit and Collections

Looking back at the last decade, “under construction” accurately describes the nature of the B2B collection industry. Previously, collectors relied on aging reports – bulky printouts of their portfolio of accounts receivable - as the centerpiece of their recovery efforts. The collection process was paper-intensive and largely manual. Then ten years ago, the introduction of workflow-based automation transformed the collection process.

However, the transformation is not complete. Specifically, collection automation is still fragmented. Though key parts have been addressed, very few firms have solved the entire puzzle. In fact, many credit departments remain mired in a functional silo that hinders their ability to recognize broader opportunities. In the meantime, the pace of commerce continues to accelerate, leaving credit departments hard pressed to keep up with the volume of business, not to mention keeping up with the times.

The vast majority of firms that have already implemented Receivables and Collections Management (RCM) software have deployed point solutions, which by nature are limited in scope, rather than end-to-end process automation. Many organizations that addressed collection automation have not addressed credit, and it is even more unlikely they have done anything about the order processing aspects of the equation. Organizations that have tackled both credit and collections often deploy different software vendors for each solution area, as well as for any other receivable activities they have automated. The result is a lot of patches within the quote-to-cash process, but not many real fixes.

The Promise of Automation

By deploying point solutions, credit professionals inadvertently promote the continuance of functional silos. Credit managers need to venture beyond the traditional credit and collection function if they want to raise their credit department to a whole new level of performance. That requires uncovering opportunities to streamline and automate corporate processes, not just credit tasks.

By focusing on the entire quote-to-cash process, you will release synergies that can transform your operating environment. For example, anything that results in greater invoice accuracy will

proportionately benefit collections and dispute management by reducing the number of items that require remediation. In light of opportunities like this, forward-looking credit executives have come to recognize that they can make a difference far beyond the credit and collection management silo.

Because the pace of commerce is accelerating, many credit and collection operations attempt to keep up by tinkering with the old jalopy instead of investing in a new race car. While a lot has been done to create opportunities to accelerate the physical aspects of supply chain management (think purchasing and inventory systems), relatively little has been invested in credit and collections. Considering that receivables are typically one of the two largest assets on a corporation's books, clearly the time has come for firms to invest in their financial value chain with an eye to improving receivables management.

The Drivers of Financial Value Chain Improvement

There are three software functionality trends impacting the financial value chain:

- **Visibility** - Which derives from the fact that automation assimilates a wealth of information by enabling internal and external sources to exchange data.
- **Predictability** - Whereas paper-based processes inhibit predictability, automation facilitates it by providing access to all this wealth of data.
- **Control** - Is derived from the first two: visibility and predictability being necessary to the identification of exceptions and the confirmation of actions and results that are compliant with both internal and external standards.

Moreover, encompassing these three trends has been the development of collaborative tools that allow you to readily connect with internal and external partners.

Credit managers have an opportunity to investigate software solutions that will add visibility, predictability and control to the entire quote-to-cash process, not just credit and collections. Within this context, there are five factors to consider when you seek to maximize the impact on the financial value chain of the automation solutions you choose.

1. Invoice Accuracy

As already mentioned, improving invoice accuracy can have profound benefits for an organization. This is borne out by studies illustrating that accurate invoices are paid relatively promptly, whereas discrepant invoices are paid 30 to 90 days slow. In a typical organization,

more than 25 percent of the invoices will contain discrepancies, so it is easy to understand the positive cash flow benefits accruing from an increase in invoice accuracy.

Automating the transaction reconciliation process is proven to increase invoice accuracy. By matching customer expectations with your order details, organizations can identify any exceptions and then take remedial action immediately to ensure proper fulfillment and billing. Visibility into the order process enables you to identify (predict) non-compliant transactions so that you can implement remedies (controls). The result will be a substantial increase in the percentage of accurate invoices, with commensurate gains in cash flow (reducing DSO) and customer satisfaction.

2. Collection Productivity

On the back-end of the quote-to-cash process, collection productivity continues to be the key challenge. Without a software solution that incorporates strategy-driven workflow, document management and embedded communication tools, collections requires a host of manual activities to contact and collect on past due accounts.

For example, in a manual collection environment, much more time is spent on support activities than on the actual collections. With collection software, the equation is reversed. By allowing collectors to devote most of their time to collections (contacting delinquent accounts), rather than support activities, productivity is dramatically increased. In addition, software improves collection efficiency, thereby realizing substantial performance gains in terms of DSO, decreases in past due balances and reductions in bad debt write-offs.

3. Front to Back-End Integration

While substantial performance gains can be achieved with either transaction reconciliation or collection software solutions, there are exponentially higher gains when both types of front and back-end solutions are tightly integrated. Again, visibility plays a key role by adding transactional transparency to your quote-to-cash process.

A pre-invoice transaction reconciliation solution captures order details that can be subsequently used in a back-end deduction reconciliation process to automatically process adjustments for specified customer short pays. Likewise, data captured during the collection and dispute management processes can be used to identify front-end system weaknesses in your order fulfillment and invoicing processes. Similar synergies can be realized by other combinations of quote-to-cash functionality such as trade promotion planning and deduction management, or pre-invoice transaction reconciliation and auto-cash.

Increased transactional transparency derived from both the front and back-ends of your quote-to-cash process feeds customer and system intelligence (predictability) that can be used to increase process throughput and quality (control). By addressing both the front- and the back-ends of your quote-to-cash process you gain an intelligence structure whose feedback loops drive continuous improvement. This type of a learning system that addresses multiple functions, over time will deliver significantly greater improvements than single point solutions.

4. Solution Scope

By the same token, broadly based financial value chain automation solutions capture a full spectrum of data that can then be leveraged to drive continuous improvement. As long as it is built with knowledge management capabilities, the broader a solution's scope, the greater its potential benefits to customers and process intelligence. Rather than benefiting from the intelligence captured at just one or two points along the financial value chain, broad scope solutions monitor the entire process, including data retrieved from external partners such as financial institutions and customers. The resulting synergy drives process and customer intelligence to new levels with commensurate benefits in terms of throughput and quality. There are six critical RCM components along the quote-to-cash continuum:

- **Transaction Reconciliation** software uses advanced algorithms and business rules to compare customer expectations with your order fulfillment process to identify any exceptions. This requires capturing all order-related information including quotes, purchase orders, change orders, sales orders, and pricing schedules. Workflow and collaboration tools are then used to reconcile the exceptions to ensure that the customer gets what they ordered and the resulting invoice accurately reflects the transaction. By increasing the percentage of accurate invoices, transaction reconciliation software eliminates customer payment delays due to invoice discrepancies. Also, since there are fewer discrepancies flowing through to the back end, there is less work to do in terms of collections and dispute resolution. Moreover, implementing a transaction reconciliation solution necessitates validation of your order fulfillment process and provides a clear audit trail, enabling you to monitor compliance with your policies and procedures.
- **Collection** software integrates contact and workflow management tools to create a strategically driven collection process. Collection software provides collectors with prioritized work queues and imbedded collection strategies to drive the next activity to be taken. By building this functionality on top of a consolidated accounts receivable database, collectors are given full desktop visibility of both transaction details and the

customer credit status. Collectors are then able to manage many more accounts, more efficiently than was possible with a smaller receivables portfolio in a non-automated collection environment. Also, because of the imbedded strategies and workflow tools, there is consistency between individual collectors across the entire collection process. The resulting performance gains can dramatically reduce past-due balances and DSO.

- **Dispute and Deduction Management** software was developed to handle the exceptions that show up when you attempt to collect past due customer accounts. By removing dispute and deduction handling from the collection process, collection efficiency is enhanced. At the same time, by coding deductions and disputes by type, each issue is assigned to an appropriate workflow driven resolution process that includes collaborative tools for use by both internal and external partners. Moreover, if resolution standards are not met, issues are automatically escalated to a supervisor. As a consequence, dispute and deduction management software dramatically reduces resolution cycle times as well as associated costs. Even more significant is the software's capability for tracking dispute and deduction types and identifying the root causes of these discrepancies. Because most discrepancies are the result of internal system weaknesses, root cause analysis is a catalyst for improving your processes, thereby increasing invoice accuracy and reducing the number of discrepancies. Commensurate benefits result in the form of higher frequencies of prompt payments and reduced non-value add work impacting the collection and dispute areas.
- **Auto-Cash** software uses algorithms and business rules to automatically match customer remittances to your accounts receivable. By pushing automated match rates above the 80 or 90 percent range, there is a significant saving in terms of labor costs as well as a reduction in information float – the time between receipt of payment and its posting to the accounts receivable. More timely cash posting also helps accelerate the collection process. In addition, auto-cash is capable of automatically identifying many types of deductions, jump starting the dispute resolution process and removing these items from the reconciliation process earlier than was otherwise possible.
- **Automated Transaction Facilitation** encompasses several types of software that enhance transaction processing between trading partners. Most prominent is EIPP (electronic invoice presentment and payment), which uses the Internet to deliver customer bills and accept customer payments. Likewise, customer self-service tools allow customers to access their invoices, statements, and related documents from a secure website. EDI (electronic data interchange) and various forms of electronic funds

transfer (EFT) such as ACH (automated clearinghouse) and credit cards also fall into this category. The benefits these transaction facilitation tools hold in common is a reduction in payment cycle times, greater electronic information sharing, and a reduction in the work flowing through to the collection and dispute areas. In particular, EIPP and related technologies not only reduce the number of customer inquiries coming into the credit department, but also provide advance information regarding customer payment intentions, which can be used to update your collection workflow, initiate dispute resolution activities and improve cash forecasting.

- **Credit Management** software includes a number of tools related to risk management, the goal being to maximize corporate profits. New application processing, order approval, credit scoring and portfolio management are the key components. While making good credit decisions will have a positive effect on collections, even bigger gains can be realized through the prudent application of credit scoring and portfolio management. Portfolio risk is controlled in two ways: by your credit approval decisions and your collection efforts. Using risk as a key component in determining how you prioritize collections and the collection strategies you apply to different customer classes will enhance collection performance.

5. Solution Scalability

The fifth driver of financial value chain process improvement is your ability to implement scalable solutions. In a dynamic business environment, it is foolhardy to implement solutions that lack the flexibility and capabilities to meet your future business needs. Some of the issues that involve scalability are corporate growth, customer service, staff limitations, and global visibility.

Scalable solutions are an absolute necessity for firms experiencing even modest growth. An effective RCM solution must be capable of handling both customer and staff increases, not just in terms of credit and collection personnel, but other internal and external users as well.

All this is critical from a customer service perspective as well. Because RCM solutions add considerable visibility to the quote-to-cash process, it is critical that the software be capable of feeding customer intelligence to a wide range of users. The more you use these products, the more types of intelligence you will have to share with new groups of internal and external partners.

In the meantime, credit department staffs continue to face pressure to either reduce head count or assimilate additional corporate growth without increasing head count. RCM solutions must

therefore provide a formula for increasing productivity at both the outset and over time (though continuous improvement). In addition, the software must be capable of deployment to not only internal employees, but also distributed staff such as those employed through outsourcing partners.

Lastly, because of increasing globalization, RCM solutions need to be scalable in terms of deployment across multiple operating units. This can involve not only multiple data sources and information systems, but multiple currencies and languages as well. All this then needs to be rolled-up into a single view of the customer across business units, countries and currencies.

The Aceva Advantage

Aceva Technologies offers a full suite of solutions with a proven history of meeting and exceeding the critical requirements for enterprises undergoing financial value chain transformation. Aceva's solutions, which offer the ability to provide visibility, predictably, and control in an automated fashion, have enabled numerous Fortune 500 organizations to achieve rapid returns on their investments. With comprehensive, cross-functional capabilities, Aceva's solutions cover the entire financial value chain, instilling best practices in an automated and process driven manner.

In Summary

Though "under construction" for more than a decade, it is safe to say that all the building blocks are now in place to construct an automated collection process that draws efficiency from every touch-point it has with the quote-to-cash cycle. Collection software, with its powerful productivity tools is itself only one piece of the puzzle.

An efficient collection process involves much more than how you contact delinquent accounts. It involves utilizing pre-invoice transaction reconciliation tools and intelligence gleaned from the post-payment deduction reconciliation process to increase invoice accuracy. It involves merging credit risk management into your collection prioritization and collection strategy procedures. It involves enhancing the processes for exchanging billing and remittance details between trading partners along with automated mechanisms for funds transfer. It involves implementing scalable and flexible solutions that address evolving business needs. It involves modifying the structure of your credit organization and possibly partnering with a receivables management firm to supplement your staff and leverage your technology.

Providing a holistic approach to collection performance improvement, Aceva Technologies incorporated all these capabilities into its solutions. Rather than just fight the collection battle on

the back end, Aceva's solutions also address the front-end system weaknesses that so often cause billings to become collection issues.

Likewise, credit professionals need to take a holistic view of collections. Pigeonholing collections within a functional silo is a prescription for underperformance. Progressive credit professionals that focus their attention and efforts on the entire quote-to-cash continuum will not only achieve superior results, but will also enhance their value to their own organizations.

About Aceva

Aceva Technologies is a leading provider of enterprise application software solutions for revenue and receivables management. Aceva's solutions for credit management, order quality, dispute prevention, inventory transaction reconciliation, deductions management, EIPP, collections management, and cash forecasting directly address quote-to-cash process breakdowns, quality issues, and automation requirements. Aceva's products deliver end-to-end revenue and receivables visibility, continuous business policy monitoring, collections process automation and workflow, as well as comprehensive reporting and analytics. As a result, customers are able to optimize financial performance and working capital, improve operational excellence and customer satisfaction, and comply with internal controls and regulatory requirements.

Headquartered in San Mateo, California, Aceva's customers include Applied Materials, Honeywell, Network Appliance, Sherwin Williams and StorageTek. For more details, visit www.aceva.com, send email to info@aceva.com or telephone (650) 227-5540.