Klass Academy

ORDER TO CASH TRENDS – 2022

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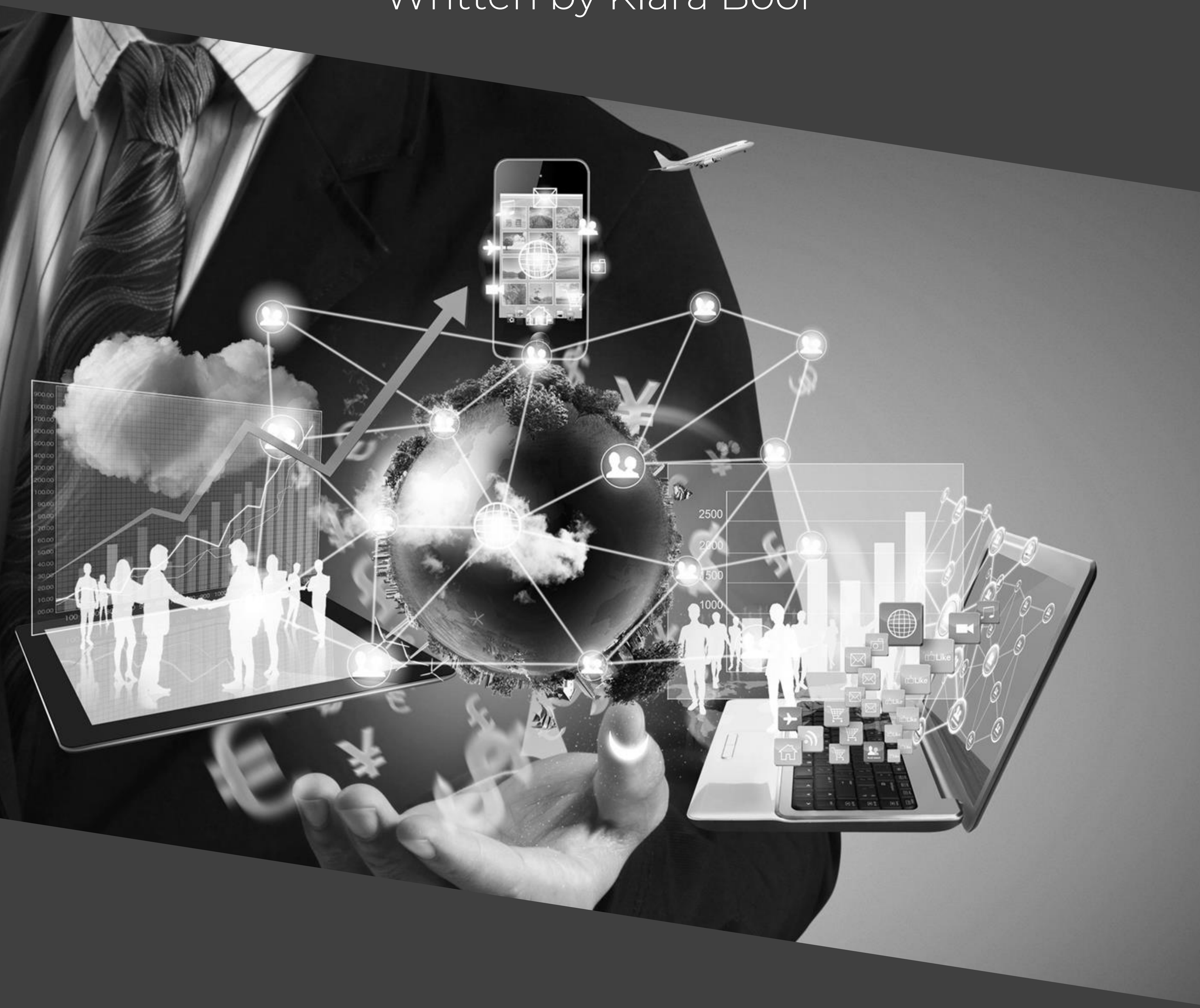

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1. CFO's Intensifying Emphasis on A/R

CFOs take steps to optimize working capital practices and bolster cash flow as a consequence to the pandemic**.**

Disruptions in the supply chain, price increases, volatility of the markets are intensifying the CFO's emphasis on liquidity management.

To respond to rapid changes it is turning out to be **important to know the company's cash position, in real time.**

It is becoming increasingly important to track the health of the receivables portfolio and shorten the cash conversion cycle.

Many focus on **automating the Accounts Receivable** (A/R) process to have more visibility on incoming payments.

Companies are moving more activities impacting working capital management into Shared Services centres, such as client services, query management and procurement tasks. Order to Cash is progressively becoming an "end to end process" including order management, supply chain and credit, finance activities.

The emphasis on increasing Cash elevates the profile of O2C teams.

The head of Order to Cash (end to end process including A/R) **often reports directly to the CFO**.

2. Organizations Re-thinking Team Design

One quickening trend within global organizations is to redesign their operating models for O2C, shifting beyond traditional business team structures.

Supply chain, sales and finance teams are about to realign, targeting **cost reduction** and **enhancement of the customer experience** in the longer term.

Many acknowledge that the reliability of cash forecasts does not depend only on the skillset of the Accounts Receivable teams, but also on how they interact with the customer master data, the contract, the pricing, the shipment, the quality and the invoicing teams.

To remove deficiencies and inadequate waiting times, **companies reimagine the flow overarching the quotation to cash process**, gradually including procurement and supply chain elements.

The aim is to **remove organisational barriers**; increase agility of the connected teams, improve the speed of their service, and ultimately grow profits.

Research [1] shows, that organisations that involve the credit function during the pricing negotiations report on average 8.4 days lower Days Delinquent than those that don't. It is also indicated, that O2C organisations with a high degree of end-to-end process ownership employ 30% less staff and spend 27% less on finance as a percentage of total revenue.

The pandemic proved that **it is possible to efficiently interact with customers from a distance**, which shifted the customer relationship paradigm; triggering the transfer of **more sales related activities** into **Shared Services Centres**.

Positive examples attract companies to move towards having end-to-end controls, however the **definition** of how to soften organisational barriers is still **shaping**.

Taking ownership of the end-to-end process introduces **political struggles** within traditional organisations. Business units with responsibility for the bottom line try to take direct ownership of the activities sitting within their shared services. However, they usually don't have the knowledge, nor the patience to deal with process design and optimisation. That's why O2C groups within Shared Services will gain more power over the quote-to-cash process. This will be counterbalanced with the introduction of customer satisfaction and sales results oriented KPI's within the O2C teams.

1 – Hackett Finance Insights 2021 https://www.thehackettgroup.com/insights-finance/

3. Increasing Attention to Team Development

Companies **increase attention to their team's wellbeing** as a result of the pandemic. Moreover, many realise that team development plays an important role in boosting competitiveness.

Companies develop their people in different ways:

1. Realising the importance of **physical dimension of wellbeing** – they support employees to break work with physical exercise, partially or entirely paid by the employer. They educate people about healthy nutrition and advise sleeping habits to strengthen their endurance.
2. To handle adversity companies open up for the **spiritual dimension of wellbeing** encouraging individuals to take moments of quiet contemplation, mindful meditation or even prayers during the day.
3. Realising the importance of mental workouts – an increasing number of companies encourage employees to **participate in refresher training** and learn new skills. They provide a budget for self-paced vocational training with preference of digital tools combined with virtual coaching in order to maximise the learning effect. **Learning soft skills**, such as communicating with difficult customers, or dealing with challenging situations are **gaining an increasing importance alike to learning "digital"** languages. For newcomers, companies offer **digitally designed on-boarding programs**, with tests to pass.
4. Companies recognise that the **pursuit of efficiency does not necessarily mean people need to sacrifice their social life**. Just the opposite, it is crucial to nourish both the professional and personal relationships. Checking in regularly with loved ones, **chatting with colleagues** and **social playing** becomes a **weekly routine** especially for those who work from home or hybrid workplaces. Companies are segregating "**silent" work time** from "**team time"** filled with meetings and team interactions. **Get to know each other sessions** are gaining momentum, aiming to connect employees working from home.

Learning and development programs become **better structured**, more specific and target driven, aiming to optimise costs. **Digital sessions and webinars dominate L&D programs**, even though many **people desire the personal "touch".**

Companies embracing home office concept are launching intense **offsite meetings,** integrating work, learning and team building exercises.

To support management – often overwhelmed by repercussion of covid and implications of process reengineering - exter**nal training programs come more and more into the forefront,** offering expertise and exchange of best practices.

4. Shift of Purpose From a “Cost Centre” to a “Business Partner

O2C teams take over more customer related duties, not only administrative but also **relationship building tasks**. The purpose has shifted and O2C teams are increasingly viewed as “business partners”

Companies **aim to gain more customers** and build customers’ loyalty via better service, **at the lowest possible cost.**

O2C teams are involved in client interfacing and their **decisions increasingly impact profitability**:

01. They undertake partially or entirely the **order management function**: order entry, capacity reservation, shipment scheduling and billing activities.
02. They take charge of **query resolution**, speeding up evaluation and administrative settlement of disputes.
03. They participate “white spacing” and **lead identification**.
04. They **elaborate finance schemes** granted to customers or geographies with scarce or unsteady liquidity.
05. They step into customer negotiations, **discussing financial aspects of deals**, supporting their sales counterparts.

To conquer customer challenges, they build teams with more emphasis on “soft” skillsets:

Skillset # 1	**Empathy** and **adaptability** are desired to respond to Covid implications;
Skillset # 2	**Communication, “problem solving skills” and “services-attitude**” are prerequisites.

Virtual calls and dealing with the **cultural aspect of customer interactions remain an issue** for most O2C teams, especially the homogeneous ones concentrated within a single country.

Nonetheless, **getting involved into customer related duties** from a distance **is an opportunity for the O2C teams to add more value**.

5. Intensifying Cash Collection

Even though 2021 was a good year from cash collection perspective, most companies sped up cash collections and prepare for the unknown.

They **aim to strengthen cash flow** and **to be proactive** to the implications of Covid.

To achieve this goal, companies concentrate on the following actions:

1. Collections teams get more aggressive to collect payments immediately. They focus more on the 0-5 and 5-20 days aging buckets as compared to the 60 plus day bucket. Some software providers[2] foresee a 32.5% spike in dunning.

2. O2C teams see a 10-20% decline in monthly payments of the "low dollar value" segment. As the aggregate overdue of small companies grew, teams prepare to scale collections to cover 100% of their portfolio by **re-focusing on small customers**.

3. More companies are moving towards communicating with their suppliers via web portals. Their accounts payable department is exploring ways to reduce the time spent on calls and emails with suppliers. As a result, there is an **influx of web portals** where suppliers look into the payment status of their invoices. Collections teams download and analyse these invoices regularly. They **scrutinise invoices at a line level** and initiate resolution of "discrepant" or "held" items in **weekly cycles.**

However, dunning of “clean” and “disputed” items intensifies, **collecting deductions and queries remains an issue**, mainly because collection **people don’t have enough time** to dig into the root cause of the issues.

Even if they manage to tie the issues down, slow responses from other departments, lack of support of their sales counterpart prevents them from effectively addressing the topic to the customer.

The consequence? As they age, these items often get written off and the **driving cause often replicates**. The phenomenon appears, especially within those companies that don’t have well thought out query handling processes, and the cost of resolution is higher than the “disputed” amount itself.

In a quest for productivity, many try to automate collections prior to streamlining their dunning flow. A disjointed process - even if the best software is sitting on top of it - does not bring improvement. Companies realise that **automation can be counterproductive if it introduces headcount reduction prior to rationalising the “collections flow”.**

Issues are especially critical within those – often decentralised - organisations, which do not align their departments’ goals and systems. System integration works, but only if it is built on seamless cross functional flow.

Successful companies improve their collections process first; they clarify their business requirements and finally, they invest in system solutions.

Needless to say that intensifying collections leads to results only if the customer is “unwilling or forgets to pay**”. Once the customer is facing severe cash flow issues, negotiation, customer care and payment alternatives come to a head.**

Quality of Cash collection has an essential impact on the cash flow and customer relationship. O2C teams elevate profile of the team in order to succeed both.

2 – High Radius https://www.highradius.com/resources/Blog

6. Strengthening Credit Risk Management

In sectors hit by the pandemic companies strengthen proactive credit risk management. O2C teams **aim to prevent bad debts** and **improve working capital** in sectors with low margins, such as commodities and retail.

They look for **credit solutions to support profitable sales** in all sectors, including services and manufacturing with higher margins.

O2C teams reinforce the following activities:

1. They focus on **reassessing their customers** and **categorising them more accurately**, in response to the unpredictable changes of the economy.
2. They **update their risk metrics monthly** or more frequently. Frequent reviews appeal especially in those industries which have been negatively impacted by the market volatility.
3. Many **shorten the credit line "validity" period** of top customers from annual to bi-monthly and quarterly reviews. Many pull reports 4-6 times more often than prior to 2020.
4. Credit teams **look for alternative sources** to complete their financial analysis, realising that credit decisions cannot rely exclusively on historic financial data. Credit managers more often **initiate credit interviews** and **an exchange of management accounting figures with top customers.** Credit Agencies providing rounded feedback into companies' payment behaviours gain more ground.
5. O2C teams assure **credit limits are assigned to all customers**, including "low dollar value" ones. If adequate, they replace credit with cash terms.
6. Many, **look for securities** and semi-securities to mitigate the risk of their portfolios.
7. Credit teams **look for upward markets**, industries and customers, enabling them to boost incremental profits.

The issue is the availability, completeness and reliability of financial data, more than before, for many Credit teams. The **probability of default calculations** including the impact of shifting sales, disruption of the supply chain and the soaring inflation.

Those using an **algorithm to define credit volume**, **fine-tune their models,** decide what weight to give to "pandemic" related data, and how to test and verify the correctness of the new method.

Using or not using credit insurance is a stationary dilemma, as **underwriting is available at a higher cost and less coverage** during times of uncertainly.

Unpredictable changes, unstable economy and low margins make companies strengthen their Credit risk management functions. While a credit insurance option is available, many realise the best solution is to have an **apt, adept and ingenious credit team**.

7. Re-thinking Process Excellence Approach

Cost pressure remains high and companies continue investing into process improvements and into robust systems.

The aim is to increase efficiency and to increasingly enhance customer experience. Initiatives are numerous and the picture is complex.

Main trend is however, to **re-think the process** with focus on a few elements:

1. **The flow**: Process thinking prevails. Most companies simplify, standardise and automate their order to cash processes. Many add dispute management, client services, sales and supply chain elements to their scope, **realising most waste is created at the connection points** of the departments.

2. **The data**: OTC operations get more and more involved into structuring and cleansing data. Orchestrating data will be less reserved for IT teams.

3. **The system**: Companies are investing into Accounts Receivable and Order to Cash Bolt-Ons. The market is saturated, many system providers offer solutions to automate the entire flow; High Radius, Emagia, Cforia, Order2cash, Credit4Sales, Nitrobox, Onguard, Blackbox, just to mention the largest ones. Emerging new providers offer cost effective solutions, too.

4. **The incentives** – ways to motivate people:
   a. Companies make efforts to **harmonise key performance indicators** between different departments;

      i. Cash collections teams are measured by customer experience, intensity of client interfacing in addition to Average Days Delinquency;
      ii. Credit teams valued by the credit approval's response time and profitable sales growth on top of DSO and Bad debt/ Sales ratio;
      iii. Manufacturing is embracing KPIs on query resolution, inventory forecast and often DSO, to mention a few examples.

   b. **Companies formally embrace employee's process initiatives**. Ideas gathered, evaluated and implemented by process champion groups.

   c. "**Process excellence" people** segregated from the operations are "**returning" to their native value stream**. Companies support models allowing best operational folks to swap into process tasks in the short term, while maintaining their operational responsibilities. **Process excellence toolkit will be often delivered by external providers**.

5. **The innovations**:
   a. Blockchain is still an unproven technology and is very unlikely to change in the next 12 months. Early adopters are still working through various operational and compliance issues. Still, we hear about blockchain's relevance for intercompany transactions and processes spanning finance, tax, and treasury teams.

b. Using **robots** in customer interactions is still in child-shoes, mainly because the **development cost is far greater than the cost-saving it offers.** Booking appointments, downloading data from customer portals via robots comes ahead. Robots calling customers remains a concern, due to the loss of the "human touch".

Improving O2C process is a complex challenge because it usually involves several departments with own KPIs, systems and objectives, outside of the O2C stream. **Harmonising KPIs continues to be an issue for many**.

In a quest for rapid cost reduction several companies rushed into purchasing "cool" software packages, without scrutinising their own processes, their own data and their own business requirements. **Purchasing systems, prior to mapping the process has proven to be a pitfall.**

Many haven't thought of the **secondary costs of their system investments** – customisation, maintenance and service desk costs, which **often exceed the purchase costs.**

Many **struggle with the speed,** adjusting processes and systems to the varying circumstances. Dealing with external changes is especially hard within those companies where **teams are unstable**.

The answer to these issues is planning; structuring; and engagement with all participants. If they are granted, **looking into the process is indeed a top opportunity to increase value**, for many OTC teams.

8. Growing Number of "Homemade" Digital Toolkits

Homemade reports, digital toolkits come more ahead within O2C teams, as a response to restrained availability of IT resources and to tightening budgets.

The aim is to reduce workload via "mini" automatisations. The solutions are developed by a team member or a group of "digital nomads". These people are accounts receivable clerks, cash collectors and credit analysts in their main role, in addition they have the ease to review, test and program macros or even applications.

Digital nomads are a growing population within O2C teams, with impressive hands-on digital skillsets.

Traditionally, **O2C teams** hired people with communication, language and finance skills. They now **include digital competences into their requirements**.
Mini automatizations might replace investments into robust systems, for example in areas of:

01 Reporting: Building and consolidating reports, using macros, access, VBA.

02 Tools complementary to their existing applications; credit algorithms, forecasting, intercompany reconciliations,

03 Robots downloading statements from customer portals.

Digital nomads are not afraid to invent, test and implement solutions to support their teams.

However, **issues might appear**. Overvaluing digital competences can easily lead to **cash collectors hiding behind their screens and their communication limited to chatbot**. They do it because dealing with excuses and assertively communicating with customers requires empathy, emotional intelligence and mastering the language, which is nurtured via human interactions. Being aware of this risk, **O2C leaders consciously encourage soft competences**, within their teams.

Uncoordinated development of quick fixes in VBA, Pithon **could lead to clutter**. Developers leaving for another job, the front-end system changing, or lack of adequate documentation can lead to **waste and re-creation of solutions**.

Understanding the big picture, system thinking and precisely documenting solutions is to counterbalance such drawback. Growing "homemade" digital toolkits is a necessity when resources are short. Where they lead in longer terms, we need to wait and see.

9. Facing More Fraudsters

O2C and Credit teams are to protect the Company's investment into accounts receivable by detecting unscrupulous activities of prospective customers.

Con artists, dishonest buddies and corrupt businesspeople appear from time to time, at every company. Since the pandemic hit the world, criminals, hoping to make their fortune by fishing in troubled waters, showed up to a greater extent.

O2C teams face more Fraudsters than ever, in 2022.

The reasons?

Performance pressure and pandemic stress have negatively impacted the integrity of many businesses.

In addition, the increased digital dependence made O2C teams far **more exposed to cyber criminality**. Hackers, black internet geeks are attacking web-based collaboration tools, emails, and portals at unprecedented finesse, aiming to make money fast.

O2C teams face more Fraudsters comprising these areas**:**

1. **Customers providing misleading information** to suppliers in order to get longer terms, better prices or higher credit limits. The phenomenon may appear in sectors hit by the pandemic.

2. **Executives issuing non-compliant business reports** to hide their performance is beyond their prognosis. Dishonest behaviour may make even large reputable companies insolvent, see example of Wirecard.

3. **Fraudsters placing orders via web portals**. They pay the first orders on time. Once trust is built, they place a high value order, and then, they disappear. Phantom companies may come ahead within commodity trades and retail.

4. **Cyber criminals** using O2C folks' **email addresses** to demand customers to pay to a "new - the fraudster's" bank account. This may go "viral" impacting hundreds of customer payments within a short period of time.

5. **Fraudsters use emails of customers** and ask to return important funds to a "new - the fraudster's" bank account; or they ask to deliver goods to a "different - the fraudster's" address.

6. Fraudsters **using the identity** of the CFO, CEO or their Personal Assistant. They call credit clerks to release goods or change bank account details.

7. Cyber pirates **sending ransomware** blocking order entry and invoicing process. They ask for important sums to release the blockage. It may appear when system administration is weak, inconsistent

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The responses?

To detect fraud types 1, 2, 3, companies build on their **local presence**. Being close to customers allows them to investigate their background.

The challenge for many Shared Services teams is **to find the right balance between the cost objective** - centralizing activities at a "low-cost location" - **and the business objective** - building relationships via local

Companies embracing hybrid models and systematically **evaluating "soft" information are c**ertainly **on the right path.**

The cost and time of dealing with Cybersecurity issues, types 4,5,6,7, is high. Hackers seem to be always a few steps ahead of others.

Many companies realize however, the more fragmented the process, the easier it is for drudgers to find the entry points. Adding security experts on its own is not a guarantee, the O2C process needs to be simplified.

Another point companies realize, is the importance of their employee's integrity. Increased control, two ways validation on its own is not enough. Stronger culture, firmer team spirit, more risk awareness prevents information leakage through employees.

O2C teams are in the frontline to deal with fraudsters.

Risk awareness, relationship building with customers and integrity will be key to effectively fighting unethical behaviours in 2022.

10. Shift From Risk Management to Working Capital

Non-payment risk lessened in most sectors, due to stimulus programs in the past two years. Companies, even in those sectors which were hardly hit by the pandemic (i.e. hospitality, travel and construction) have persisted thanks to aid packages rapidly introduced by the governments. Despite expectations, insolvencies and bankruptcies have lowered during the pandemic.

Companies have shifted attention from risk to cash management, in the past few years. **We believe this trend will continue in 2022.**

Companies set tight working capital objectives to prepare for the unknown. **They aim to have enough reserves** to elaborate internal solutions to supply chain issues and to respond to future volatility in the markets.

They strengthen their cash position in preparation for scaling their operations, acquiring other businesses, or protecting themselves from hostile takeovers.

Companies bring Working capital management to the fore by:

Prioritizing reduction of accounts receivable

a) Quicker invoicing
b) Shorter payment terms
c) Faster collection

Aligning supply chain and accounts receivable targets.

a) Reduction of inventory by "prior-production" credit holds
b) Harmonised supply chain-and customer finance solution

Bringing supply chain and accounts receivable management under the same management umbrella.

Small and mid-size companies, with fewer reserves remain relying on Trade finance solutions with risk coverage on top.

Strengthening working capital is an "well proven" business principle, certainly correct so far as it considers both the supply chain and the customer financing needs.

O2C teams need to be prepared, however, that **the positive upshot of the stimulus programs will expire** at some point in time. **Risk exposure might rapidly increase** – effecting both profitability and working capital.