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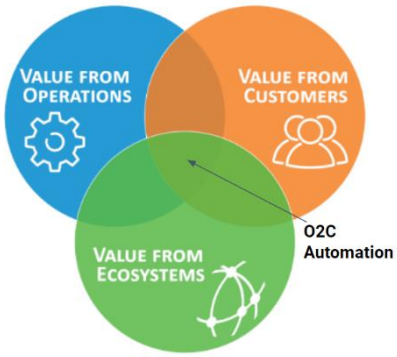
Can We Extract More Value from the O2C Cycle?

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The order-to-cash (O2C) cycle is a complex process involving various cross-functional activities. Despite advancements in ERP software and emerging technologies like robotic process automation (RPA) and AI, there is still room for improvement in B2B processes.

Companies can strategically realign their order-to-cash processes and leverage new technologies to optimize their performance and improve the bottom line. Optimization involves integrating data from business customers, automating activities, improving workflow, and analyzing deductions. By treating O2C as a unified challenge and breaking down departmental silos, companies can improve cash flow, deduction recoveries, and customer satisfaction.



Integrating the invoice-to-payment process is a critical aspect of O2C optimization. It involves linking stages from invoice generation and submission to validation, dispute resolution, payment processing, and reconciliation. While there may be industry-wide solutions like blockchain in the long term, current solutions involve implementing robotic (RPA) processes, leveraging bolt-on software applications, and optimizing ERP systems. Some areas in which these current solutions can be deployed are credit, accounts receivable management, collections, and deductions.

Credit management is a crucial aspect of the O2C cycle. B2B credit scoring and credit line monitoring help companies assess the creditworthiness of their business customers

and manage credit risk. Effective credit management reduces the risk of defaults and improves slow payments. Automated credit application software has gone a long way to accelerate (and improve) new customer onboarding processes, often cutting order approvals from several days to 24 hours. The result leaves credit managers with more time to manage high-risk customers.

Accounts receivable (AR) management includes cash application, where incoming customer payments are matched and applied to open invoices. Traditional cash application processes can be time-consuming and prone to errors. However, software solutions can automate the cash application process using optical character recognition (OCR) technology, employing machine learning algorithms, and providing real-time adjustments based on pay terms and special conditions like tolerance write offs or early pays. By integrating with payment gateways and accounting systems, data analytics and reporting capabilities are also optimized. These enhancements streamline cash application processes, reduce errors, and improve operational efficiency to ensure cash closes quickly, disputes are handled sooner, and collectors have accurate views on true open invoices.

Collections management is another area where software can improve the efficiency of the O2C cycle. Software can automate collection tasks, handle dispute resolution, and provide reporting and productivity analytics. By integrating with accounting, third party bureau data and CRM systems, software solutions also utilize predictive analytics to identify high-priority activities and manage them through workflows, better facilitating multi-channel communication, collaboration and documentation automation. By leveraging software, businesses can enhance productivity, improve customer communication, and make informed decisions to accelerate the payment cycle and improve cash flow.

Deductions, dispute or claims and chargeback management is particularly unique when utilizing new technologies to improve your O2C processes. Deduction automation software provides centralized access to deduction-related documents and real-time visibility into the deduction management process. By integrating with various ERP systems and employing intelligent matching and validation algorithms, seamless data exchange and synchronization attained between different departments and systems involved in the deductions or disputes areas process. It facilitates collaboration and communication by incorporating alert and notification systems across all departments. Additionally, the software maintains documentation and audit trails to assist with compliance and dispute resolution and offers root cause analytics and reporting for better benchmarking. These software enhancements streamline the deduction management process, improve efficiency, and provide better visibility into deduction trends and outcomes.

While O2C optimization may seem daunting, even small changes can deliver significant ROI. For example, for a $10 billion consumer goods company:

- a 3-day reduction in Day Sales Outstanding (DSO) will produce $82 million in additional cash, with autonomous collections, reducing administrative costs by a large percentage.
- a 5% reduction in customer deductions would represent millions of dollars in additional profits.
- effective management of claims validation and trade promotion accruals, which could be as high as 15% of revenues, will ensure that trade funds are being accurately accounted for - contrast to providing money freely without performance criteria.
- automation of cash application speeds closing the books, supercharge the deduction validation and resolution process, while eliminating 50% of the labor.

Summary

In conclusion, optimizing the order-to-cash cycle is an ongoing opportunity for businesses to improve their performance and bottom line. By integrating processes, leveraging automation and advanced technologies, and implementing software solutions for invoice-to-payment, companies can enhance efficiency, reduce errors and improve overall financial performance. Adopting software solutions for credit, accounts receivable, collections and customer deductions management offer ideal areas to start the process.

About the author:

John Metzger is Chairman of Smyyth & Carixa, which provides advanced Carixa™ accounts receivable automation and expert services for accounts receivable, including deduction management, to help clients achieve extraordinary productivity, cash flow, and profits. Previously John was CEO of Creditek, an AR and Deduction Management BPO industry leader, with a team of 1,000 specialists in consumer technology, pharma, and CPG. Earlier experience includes managing a turn-around consultancy, and prior positions including EVP of Global Operations, Director of Distribution, and Director of Credit.