POINT OF VIEW

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Order to Cash: Broken collections processes can have a huge cash flow impact

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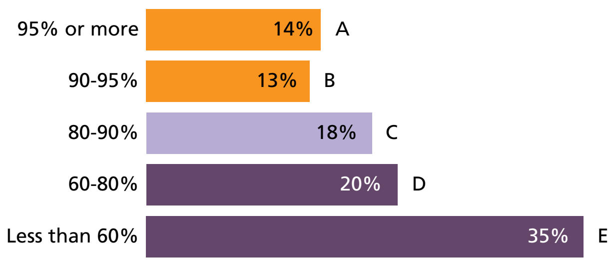
The fundamental objective of any accounts receivable (AR) department is to collect as much as possible, as quickly as possible, at the lowest possible cost. However, Genpact's Made to Measure survey[1], conducted with CFO Research, revealed that only 27% of companies surveyed collect 90% or more of their total yearly sales within contracted payment terms. The rest struggle with cash flow and working capital issues that could be solved with smarter analytics and collections strategies. Unsurprisingly, the CFOs surveyed identified improving collections as one of their top three priorities.

Only a tiny minority of companies collect on time

Our findings indicate that issues with collections can originate in the earliest stages of a company's Order to Cash (OTC) process. Although performance varies by industry, poor collections performance arises from the following:

- Too much "uncritical" reliance on ERP technologies that, alone, may fail to deliver required information and expected benefits
- Inability to convert collections data into actionable intelligence
- Insufficient analysis of customer behavior and segmentation of the customer base
- Lack of effective, customized collections strategies

In the last fiscal year, what percentage of your company's total sales was collected within contracted payment terms?



Percentage of finance respondents
A = Excellent
B = Good
C = Adequate
D = Cause for concern
E = Needs attention

Better analytics drive more focused collections

Most businesses spend 40% of their collections effort chasing 10% of AR. Without a detailed analysis of customer segments and payment patterns, etc., organizations typically focus their best collectors on a few high-value customers month to month, when in reality other customer segments have a greater impact on past due performance. This can negatively impact operational efficiency and key outcomes such as Days Sales Outstanding (DSO) and past due percentages.

Collating data and applying analytics can drive improvement by converting the data into customized strategies for different

[1] *http://www.genpact.com/docs/resource-/cfo-research-services_genpact_research-report_051112*

customer segments. In our experience, a three-pronged approach is effective:

1. **Portfolio segmentation:** Effective collections strategies should start with portfolio stratification to understand the company's AR structure. Identify customer tiers based on components such as AR balance, revenue, class of trade, and other strategically relevant metrics. This exercise can:
   - Provide insight into how each tier contributes to the outstanding balance
   - Help managers balance staffing levels and focus efforts on the appropriate customer segments
   - Identify segments that can yield the most improvements on the overall cash flow performance
2. **Drill down into customer tiers:** With customer segments established, organizations can determine actual customer payment behavior within each tier. Market intelligent data provided by third-party credit assessment agencies can be combined with observed payment patterns to help companies zero in on customers who not only contribute to high balances but are perpetually late payers. This improves the AR balance at risk metric, which in turn helps to control seriously aged receivables. Organizations can then proactively drive changes in a customer's payment mode, class of trade, and payment terms to speed the payment process.
3. **Define the most relevant contact strategy for each customer segment:** For instance, the low-balance customer group that always pays within payment terms will not require the same collections effort as a customer segment with a low balance that always pays 1-10 days late. The latter segment may require dunning letters and automated emails, etc. Contact strategies can be identified against each customer group and recorded in the collections platform to drive higher automation of the contact process.

Better strategies drive better outcomes

The *Made to Measure* survey showed that finance and procurement executives across industries realize the economic benefit of improving their business processes. Of the four finance and procurement processes evaluated (Order to Cash, Business Planning, Record to Report, and Source to Pay), CFOs are keeping the closest watch on their OTC processes, focusing on collections effectiveness and customer satisfaction as key measures of process performance improvement.

Collections performance varies significantly across industries, as shown in the table below.

	Our insights into collections performance	Key takeaway
CPG	• Consumer companies in our survey focus more of their transaction-processing improvement efforts on sourcing and procurement than on collections • Success in this industry depends on healthy cash flow, so these businesses cannot afford payment delays • Collectors spend 70-90% of their time on identifying, following up, resolving short pays, and reconciling accounts	Watch end-client supply chain and finance processes, especially as revenue is skewed toward a small section of clients
Financial Services	• 62% of companies in this sector collected 80% or less of their total sales within contracted payment terms • Financial services firms are less likely to depend on cash generated through operations than other businesses and are less susceptible to the effects of poor collections efforts, so timely collections may be a lower priority for them • These companies noted substantial process weaknesses and technology diversity in collections and accounts receivables, which could result in cost inefficiencies	Although the portfolio of services offered plays an important role, in many cases, sub-optimized technology platforms are still used

	Our insights into collections performance	Key takeaway
Manufacturing	• Manufacturers do better than most at collecting within contract terms, likely due to an intense focus on transaction-processing systems and managing working capital • Even so, more than 40% of those surveyed fall into the bottom two tiers of collections effectiveness	Boost collections forecasting accuracy and migrate to robust systems, e.g., web portals
Healthcare	• Healthcare's intense regulations contribute to the fact that half of these companies collect 60% or less on time • Low performers risk their customers switching to competitors with better OTC processes	As new business models emerge, the importance of metrics like DSO will increase

The full results of CFO Research's groundbreaking global CFO Survey can be found online[2]. The findings dovetail with our experience in working with dozens of organizations globally. We have found that measurable business impact on collections can be achieved through a more industrialized operating model. Such frameworks, which encompass more robust, analytics-driven processes, produce actionable intelligence, more focused collections efforts, and ultimately, faster payment. The CFOs surveyed were right in their belief that better processes are critical to the bottom line.

[2]*http://www.genpact.com/docs/resource-/cfo-research-services_genpact_research-report_051112*

About Genpact

Genpact Limited (NYSE: G) is a global leader in transforming and running business processes and operations, including those that are complex and industry-specific. Our mission is to help clients become more competitive by making their enterprises more intelligent, meaning more adaptive, innovative, globally effective and connected to their own clients. Genpact stands for Generating Impact – visible in better management of risk, regulations, costs and growth for hundreds of long-term clients including more than 100 of the Fortune Global 500. We offer an unbiased, agile combination of smarter processes, analytics and technology, which limits upfront investments and enhances future adaptability. We have 60,000+ employees in 24 countries with key management and corporate offices in New York City. Behind our single-minded passion for process and operational excellence is the Lean and Six Sigma heritage of a former General Electric division that has served GE businesses for more than 15 years.

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About the author

Prakash is a vice president and heads the Order to Cash practice at Genpact, a global leader in business process and technology management. He is involved in designing and implementing transformational solutions for clients, and building Genpact's overall capabilities within the Order to Cash process. He is a certified ARM (Accounts Receivable Manager) from TARN, U.S., and is a certified Six Sigma Green Belt.

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