The Need for Speed:

Transforming People and Paper Based Order-to-Cash Process to Electrons

Reality Check – The Timing and Cost of Getting Paid is Increasing

Most businesses are aware of the U.S. Postal Service announcing the closings of half of their distribution centers and many U.S. Post Offices throughout the country. Compounding this issue is the December 5, 2011 decision to reduce the service standard and change the first-class mail to a two to three day delivery schedule. However, most CFOs/Controllers have not quantified the severity of the impact these actions will have on the Order-to-Cash (O2C) process for businesses. The increase in Days Sales Outstanding (DSO) alone could have a dramatic effect on working capital from added delays in receipt of the bill (estimated at 2-4 business days) and added delays in receipt of payment (estimated to be another 2-4 business days). However, there appears to be a limited sense of urgency by CFOs/Controllers to develop a game plan to address this situation. CFOs/Controllers may simply not be aware of the pending impact to the DSO and Accounts Receivable (A/R) from these actions by the U.S. Postal Services. API Outsourcing (www.apifao.com) estimates that the impact on working capital alone will be in the millions of dollars for middle market businesses. Stated differently, depending on revenues of the business, the estimated negative working capital impact could be approximately 1% - 1.5% of revenues. This is a significant impact regardless of the size of the company.

It is no secret the U.S. Postal Service has been losing money because of excessively high costs and inefficient and outdated mail delivery processes that go back to the days of horse and buggy. The closing of distribution centers and postal offices are being driven by a variety of forces; with the most notable being the overbearing cost burden of continuing to operate within a paper-laden environment. Fortunately, organizations have an alternate path to buffer the U.S. Postal Service demise given the advancement and adoption of technology and the conversion to electrons.

Common industry jargon for electrons include EBPP (Electronic Bill Presentment and Payment) which is nothing more than online billing and payments over the Internet, eBilling, eMail, EDI (electronic data interchange) and elnvoicing. The “e” stands for electronic. For this white paper, we will simply call all of the above electrons. Companies are starting to move from paper, print, and postage to electrons as best in class businesses opt to do business with electrons versus paper and “snail mail”. (See Figure 1)
Remarkably, despite the emergence of technology and automation platforms to eliminate “snail mail”, paper, print, postage, and physical mail delivery is still the dominant form of business activity today as it relates to O2C, and customer billing (A/R) in particular. API Outsourcing’s benchmarking studies estimate that approximately 2 out of every 3 businesses today still manage the O2C billing process the old fashioned way using manual labor, paper, print, postage and “snail mail.” While strategic-minded companies are adopting and moving to electrons, many companies still have significant investments in the “print/mail” room operations which are loaded with “hidden” costs. One of the most serious restraints placed on CFOs/Controllers from moving the people and paper based O2C billing processes to electrons is the physical equipment itself such as printers, sorters, folders, inserters, etc. which are prone to mechanical breakdowns and a lot of maintenance costs causing significant waste and further delays.

The perfect storm is brewing unknowingly for most companies and their O2C processes. A shutdown of U.S. Postal Offices, a move away from first class mail standard delivery from two days to three days, and the reluctance by businesses to adopt electrons because of the ownership of outdated equipment that is prone to failure, is a recipe for disaster for the working capital of many companies.

Equally remarkable, in this day and age of high-paid consultants who perform “process reengineering” on behalf of clients, is the fact that these consultants simply avoid or are ignorant in investigating and “reengineering” a major sub-process of the O2C process - customer billing (which includes the print/mail room operations). Unless a true, full scale “activity-based costing” or ABC approach is applied to the print/mail room operations, CFOs/Controllers do not acquire a solid financial grasp on all of the costs (both “known” and “hidden”) associated with the print/mail room operations and the bottom line impact that could be realized by switching from paper to electrons. This includes not only permanent cost reduction, but a dramatic reduction in DSO.

**Print and Mail Room Operations – The “Bogey Man” of Hidden Costs in O2C**

The following is a sample breakdown of key cost drivers in the print/mail room operations that CFOs/Controllers must consider:

- USPS first class mail rates
- Personnel costs (fully loaded) to manage/use the physical equipment
- Print/mail room management costs (fully loaded)
- Personnel costs for customization of statements/bills (fully loaded)
- Equipment costs including lease and maintenance agreements (spare parts, etc)
- Supplies (paper, ink, envelopes, other)
- Building and other associated costs (HVAC, electrical, cost per square foot, maintenance, other)
- Personnel costs to receive and process payments (fully loaded)
- Personnel costs (fully loaded) to manage collections and “dirty receivables” like disputes, estimated at a minimum of 10% of all invoices
- Personnel cost because of peaks (overtime) and valleys (idle time) based on variability in volumes
- Other
After all costs are quantified, a simple calculation can be derived at the cost per customer bill based on the number of bills that are printed and mailed. These costs normally range from $3 to $5 just to get the bill out the door.

**What Can CFOs/Controllers do to Move from Manual People and Paper based O2C Processes to Electrons?**

API Outsourcing has developed a roadmap to help CFOs/Controllers move to electrons for their entire O2C processes. The following are excerpts from the roadmap:

**Consolidate and outsource existing print/mail room operations**

**Issues:** Existing maintenance agreements for equipment, reluctance to shut down print centers and labor considerations cause huge delays and drag the business down. It is time to write this old equipment off and shutdown the print centers. In many cases the equipment is already at zero book value.

**Mitigation Approach:** Review all existing maintenance agreements and develop an end-of-life strategy for the equipment including sale or disposal of obsolete fixed assets.

**Transition paper to electrons through the outsourcer**

**Issues:** Conversion of a company’s customers to “electrons” – there will be reluctance by some customers who want the paper so they can manage their Accounts Payable (A/P) and delay payments.

**Mitigation Approach:** Offer incentives and the ease of use of electronic adoption. Get your A/R Department involved and turn every incoming call that is requesting information that can be found online as an opportunity to educate the customer through the process of getting online and teaching them to find the information for themselves. One of our customers used this process to get 90,000 out of 150,000 customers to convert to electrons.

**Bill immediately**

**Issues:** It is still a mystery why some companies do not bill immediately but rather wait for an outdated billing cycle which is typically at the end of the week or month. This is a change management requirement at its very best.

**Mitigation Approach:** Review internal business policies and practices and perform process reengineering. Online billing allows bills (electrons) to go out daily at no additional cost.

**Retrain and retool accounting personnel who have been too involved with paper based O2C processes**

**Issues:** This will require new job descriptions and training materials. This will also require more business intelligence and analytical capabilities and may create a reduction in personnel.

**Mitigation Approach:** Develop a re-tooling strategy around “electrons” by customer segmentation. Mandate elimination of all file cabinets to force adoption of electrons.

**Constantly re-focus and improve on the entire end-to-end O2C process flow** (see Figure 2)

**Issues:** May require additional investments in tools and technologies to convert to electrons and manage customer billing, deductions, disputes, credit control, collections, while also managing customer defections.

**Mitigation Approach:** Engage with a qualified O2C process transformation consultant or service provider focused on electrons and permanent cost reduction in the O2C process.
Re-evaluate the billing systems

**Issues:** Many companies’ billing systems are not integrated with the customer’s Enterprise Resource Planning (ERP) system(s). This may require bolt-on software and a common data model. Also, most enterprise contact information (e.g. email addresses) are located in a company’s email system (e.g. Microsoft Outlook) and will need to be extracted.

**Mitigation Approach:** Engage with a qualified O2C technology or service provider who understands the application and data complexities of non-integrated billing systems. Engage the organization to develop a technology roadmap for seamless integration and the elimination of paper from the process and convert to electrons. Choose an outsourcer who has a technology platform that will allow multiple disparate billing systems to feed to a central bill site that can do the billing while also capturing lockbox images and electronically updating the customer ERP system(s). Your A/R Department has customer contact information as a function of their collection efforts.

**Figure 2: Order to Cash (O2C) Process**
Summary
Companies need to take full advantage of new tools and technologies to enable the adoption of electrons for their entire O2C process and help them manage one of their largest Balance Sheet Assets – Accounts Receivable. The tools and technologies exist; however, other challenges remain:

Multiple customer billing systems that are not integrated with the ERP (or multiple ERP systems)

API Solution: API is agnostic to the number of billing systems and ERP systems. Our cloud based interface and use of File Transfer Protocol (FTP) enables the API automation platform and API document imaging and archival system to operate in a company’s heterogeneous computing environment by consolidating all billing into a single repository and provides the option for billing by electrons. For those customers that will not adapt to electrons, file transfer and print/mail is supported by API.

Enterprise contact information that is embedded in the email system (e.g. Microsoft Outlook) and not in the ERP or the billing systems.

API Solution: API centralizes all billing information by creating and storing invoices in a common format accessible via the cloud. API captures all orders, contract and support documents in the API document imaging archive and links them with the invoice as required to satisfy customer needs. API captures and stores check images, remittances and white papers along with ACH information in the API archive run to automate reconciliations. Access to all documents in the API archive is made available to customers via a Simple Object Access Protocol (SOAP) call from the customer’s ERP system(s). API also offers a portal for customers to access archived documents via the cloud.

Inability or unwillingness to transform or reengineer the print/mail room operations and processes especially as it pertains to the paper handling equipment due to real and perceived “sunk costs” in fixed assets.

API Solution: API provides a turnkey solution to make the transition simple and efficient. A typical transition from the legacy system to hybrid billing and document capture is accomplished in weeks versus more than a year if companies try to do it on their own. API also provides a phased approach so each step in the transition can be validated and customer satisfaction is assured.

Other change management related issues.

API Solution: In many situations a new API customer is faced with how to handle the personnel that are displaced with the outsourcing and conversion of people and paper to electrons. Best practices learned from over 100 implementations are shared to minimize the impact.
Once CFOs/Controllers realize the economic impact on their working capital they are still faced with the dilemma of how to resolve the problem. They are immediately confronted with the issues of how to deal with a customer base that may take several years to fully adapt to electrons, what to do with existing print/mail room facilities, and where to find the technical resources to implement change.

**API Solution:** API can provide an adoption campaign through mail inserts, email campaigns, collection of email addresses and telephone calls if requested. A typical rollout is to take over the print and mail process and then move people to electrons using a rapid adoption plan. This type of approach will generally yield 50% to 70% adoption by customers over a period of 1 year.

The good news for companies is that API Outsourcing has helped numerous customers on this journey from manual people and paper based processes to electrons with significant ROI. In many cases, this is not a single “big bang” approach to the above, but rather a planned approach (roadmap) that delivers significant value including permanent cost reduction and reduction in DSO while transforming the entire O2C process to electrons. The more electronic the O2C process becomes the better controls, the better risk management and the better audit capability will exist for CFOs/Controllers.

If you would like to learn more, please contact Randy Mueller at 612-702-2001 or randy.mueller@apifao.com.

Thank you for reading this white paper.
Randy Mueller
Randy is the Vice President of Business Partner Sales at API Outsourcing, Inc. Randy has over 30+ years of professional experiences and has worked as a Business Advisor, Executive, and Management Consultant most noteworthy at IBM, Accenture, Deloitte Consulting, Tata Consultancy Services (TCS), and HCL Technologies. Randy is an industry thought leader and experienced in Finance & Accounting (F&A) systems (ERP) and tools, F&A processes including Record to Report (R2R), Procure to Pay (P2P), and Order to Cash (O2C), and F&A Outsourcing (FAO). Randy has sold, led, and advised numerous clients on FAO engagements involving numerous ERPs (multiple General Ledgers), Shared Services Center (SSC) development, and strategic sourcing. Randy's consultative sales and advisory approach to client CFOs/Controllers is focused on eliminating redundancies and process costs through automation, industry benchmarking, risk mitigation, enhancing internal and external reporting, improved liquidity and working capital, and enhanced cash management.

About API Outsourcing
API Outsourcing, Inc., is a leading onshore Finance and Accounting Outsourcing (FAO) provider of innovative state-of-the-art document management, Procure to Pay (P2P), Order to Cash (O2C), and accounting services headquartered in St. Paul, MN. API was voted a top tier FAO service provider by a leading global independent outsourcing advisory firm. API transforms manual paper-dependent payables and billing processes through its imaging, bill delivery and workflow systems to minimize the labor intensive work associated with back-office processing and enables customers to focus on their core business. Outsourcing benefits include maximized cash flow through improved DSO and controlled DPO. This combined with reduced processing costs, increased business intelligence and improved customer and vendor relationships; provides the ultimate value proposition around permanent cost reduction. API currently processes over one hundred million transactions annually, delivers world-class quality, provides exceptional customer satisfaction, utilizes Six Sigma practices and performs a SSAE 16 Audit annually. For more information, please call, +1.651.675.2600 or visit www.apifao.com.

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