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The Limits of Traditional O2C Solutions

What You Need to Achieve Your Desired Business Outcomes

Introduction

It's more important than ever for organizations to rethink their Order-To-Cash (O2C) processes. At a time of economic instability, CFOs need to free up working capital and improve cash flow. The average day sales outstanding (DSO) for a business today is at its highest point in the past ten years, and businesses in the United States have over $1.2 trillion trapped in working capital.[1]

How do we solve the problems that have long plagued O2C? High DSO, long customer onboarding processes, time-intensive and arduous credit approvals, dispute and collections management, and customer pressure to extend payment terms are all issues that can harm the working capital and liquidity position of any business.

Unfortunately, CFOs often incompletely resolve these challenges through inherently limited solution approaches. Some CFOs, convinced that they have an "O2C technology problem" default to looking for a newer, better piece of technology. Some see outsourcing and labor arbitrage as the best possible remedy to costly O2C processes. Other CFOs may turn to a financial institution or other non-bank financial service provider to eliminate credit risk and unlock cash from receivables. While these solutions have select benefits, they all share one common flaw: none of them can offer guaranteed outcomes for DSO or working capital improvement.

But what if there is a way to solve all O2C problems under a single solution approach? A solution that guarantees meaningful business outcomes: on-time payments, elimination of credit risk and DSO reduction to a number of choice. This paper will discuss the limitations of traditional O2C solutions and outline a superior, comprehensive O2C transformation approach.

Pros and Cons of Traditional O2C Services and Solutions

TECHNOLOGY

Many organizations leverage technology to automate customer credit decisioning or Accounts Receivable (AR) and Treasury processes within the O2C cycle.

Automation can help produce or eliminate manual and paper-based processes, and the attendant cost savings and error reduction usually present a positive ROI.

Strengths:

- AR technology providers offer a wide range of toolsets that can introduce valuable efficiencies across various AR functions such as deductions, collections and cash applications — streamlining AR operations
- O2C technologies are evolving with innovative Robotic Process Automation (RPA) and Machine Learning (ML) capabilities that can help mitigate risk and economize certain O2C processes
- Technology-based O2C solutions are usually adept at collecting and analyzing receivables data to provide visibility and insights into customer behaviors
- Software-based O2C solution costs are not a capital expenditure (CAPEX), unlike in-house software development. Many businesses are curtailing CAPEX expenditures in the depressed economic environment

Weaknesses:

- At a time when deployment speed is vital, implementing new software within the O2C cycle can be problematic in a remote-work environment
- Data is often stored in siloes and exists in fragmented systems which further hinders technology implementation
- Protracted, complex technology implementations result in an uncertain ROI that may not be understood until long after the business is committed to a long-term contractual engagement with the solution provider
- No O2C technology can provide a guaranteed impact on DSO
- O2C technology and automation cannot eliminate credit risk inherent in floating customer receivables

Takeaway

The implementation of technology and automation in O2C will likely improve process efficiency and reduce cost. Reporting capabilities usually afford visibility that increases control over the O2C cycle with customers allowing for better decision-making.

However, long implementation times make for a difficult ROI calculation, and technology alone fundamentally cannot assure an adopter of a DSO outcome.

Also, no matter how sophisticated or intelligent a credit management technology may be, it is no guarantee that payments will be received on time, or at all. The lack of guarantees with customer DSO and payment behaviour diminishes the CFOs ability to plan and forecast.

BUSINESS PROCESS OUTSOURCING (BPO)

Companies usually turn to BPO firms because it gives them a chance to leverage experts for transformation or achieve full-time equivalent (FTE) cost savings through labor arbitrage. The BPO approach gives a third-party partial or full control over a company's O2C operations.

Strengths:

- BPO's can be the appropriate option for decisionmakers whose business has significant technology, staffing, and talent deficits within the O2C cycle
- Labor cost savings for rote O2C activities such as invoice distribution, cash applications and collections can be significant
- These firms may offer industry-specific domain expertise and have access to advanced technology toolsets for O2C automation. The combination of industry knowledge and managed technology means that they can give actionable intelligence that can help improve the profitability of customer relationships

Weaknesses:

- Considerable up-front expense may be necessary for the BPO provider to build or adapt its existing technologies and processes to your unique O2C requirements. Fee structures for O2C BPO services usually lack incentives for the BPO provider to deliver the highest-quality experiences to your customers
- BPO providers do not provide financial management services such as assuming customer credit risk, managing payments or guaranteeing payment receipt at a specific DSO

Takeaway

O2C outsourcing enables process efficiency while removing some or all internal FTE requirements. In cases where the BPO proves to be a cost-effective option, businesses can better focus on their core business activities while also achieving more control over customer relationships.

However, with the financial services component missing, BPO providers cannot guarantee reduced credit risk or achievement of specific DSO reduction goals. High deployment costs and uncertain future expense to accommodate new process needs can complicate ROI considerations.

FINANCIAL SERVICES

Accounts Receivable Financing is also a popular option as it eliminates credit risks for the company. Financial service providers can manage credit decisioning, extend credit to customers, manage incoming payments, and accelerate certain payments to business sellers. Examples of providers in this category include traditional banks or lending institutions, factoring companies, and seller-led supply chain finance providers.

Strengths:

- Among the three classic categories of O2C solution providers, only those providers in this category can assume a financial role in your customer transactions
- Certain providers in this category, such as factoring providers, can selectively unlock cash from outstanding receivables
- Credit decisioning, and extension of credit to buyers, are features offered by some providers in this category

- Providers in this category usually offer a fee structure that incentivizes the provider to support business growth and positive customer relationships
- Many providers can offer the option of reducing or eliminating collections risk for select receivables in your portfolio

Weaknesses:

- Many financial services providers have stringent credit qualifications that could limit a supplier's customer base
- Considerable integration is required between a seller's ERP and/or invoicing systems to support these relationships
- Providers in this category can struggle to achieve dispute reduction objectives for the business
- Fees for this type of O2C service are usually high, and there may be a lack of predictability to future fees

Takeaway

Financial service providers can offer valuable credit decisioning and risk ownership services, and they can bring a company closer to working capital control. Providers can own select, labor-intensive O2C activities in certain instances, such as collections (dunning), cash applications, and payment processing. However, the need to build or purchase other O2C technologies remains (such as invoice distribution).

A Snapshot Comparison of Traditional O2C Solutions

Feature	Technology	BPO	Financial Services
Credit Decisioning	√	√	√
Credit Issuance			√
Managed Seller-Buyer Data Integration	√	√	
Invoice Creation	√	√	
Invoice Distribution / Presentment	√	√	
Dispute Management	√	√	
Managed Dispute Resolution		√	
Sales Analytics / BI	√	√	√
Payments Acceptance	√	√	√
Collections Workflow / Dunning Management	√	√	√
Managed Collections		√	√
Guaranteed DSO			√
Receivables Risk Elimination			√
End User Training			

Corcentric's Managed Order-to-Cash: Achieve Guaranteed Business Outcomes

As a provider of O2C solutions, Corcentric acknowledges the benefits of each approach on its own. However, a holistic solution to O2C challenges can only be accomplished with Corcentric's unique combination of technology, BPO and financial services delivered through a "Managed O2C" model. The Corcentric approach encompasses every aspect of the O2C cycle, from customer onboarding to credit qualification, invoice delivery, collections and dispute management.

But Corcentric takes O2C one step further to ensure improved working capital, by guaranteeing payments, which eliminates credit risk and provides DSO reduction. The DSO reduction can be tailor-made with precision according to a business's working capital needs.

Strengths:

- Corcentric has in-depth knowledge and deep subject matter expertise in procurement and supply chain, offering solutions for both AR and AP across various industries
- Corcentric covers all O2C activities from customer onboarding to credit qualification, invoice delivery, payment collection and dispute management.
- Corcentric's solution liberates FTE's, allowing for staffing expense savings or redeployment of FTE's to more strategic value-added work for the business

Takeaway

With the Corcentric solution, sellers receive customer payments on terms of their choice, and the seller is relieved of responsibility for bad debt or any credit risk. For example, if a seller engages Corcentric to reduce DSO among some, or all, customer accounts from 60 days to 30 days, the seller will immediately begin receiving those customer payments on exactly 30 day terms – guaranteed and independent of when or if the buyer remits payment to Corcentric. Within this engagement, Corcentric would assume responsibility for assessing and extending credit for customers, distributing invoices to customers in their preferred invoicing format, and administering any dispute resolution activities.

By leveraging technology and assuming the role of a financial service provider and consultative services, Corcentric ensures all your needs are met so that it can deliver real business outcomes – guaranteed on-time payments, DSO reduction and elimination of credit risk, ultimately improving working capital.

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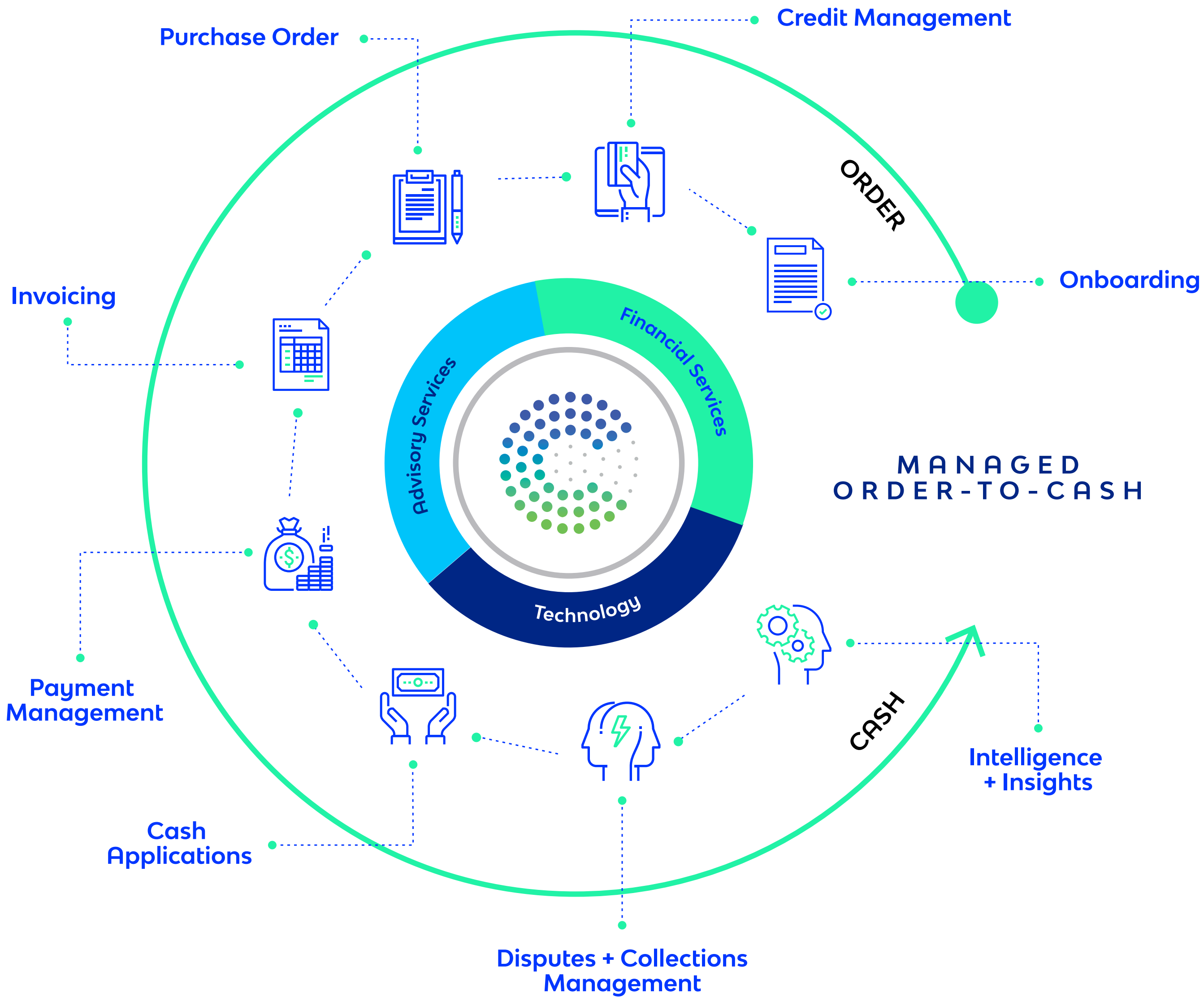
Corcentric's Managed Order-to-Cash



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How Corcentric's Managed O2C Compares with Other Solutions

	Feature	Technology	BPO	Financial Services	Corcentric's Managed O2C
Onboarding	Credit Decisioning	√	√	√	√
	Credit Issuance			√	√
	Managed Seller-Buyer Data Integration	√	√		√
	Invoice Creation	√	√		√
Invoicing	Invoice Distribution / Presentment	√	√		√
	Dispute Management	√	√		√
	Managed Dispute Resolution		√		√
	Sales Analytics / BI	√	√	√	√
Payments	Payments Acceptance	√	√	√	√
	Collections Workflow / Dunning Management	√	√	√	√
	Managed Collections		√	√	√
	Guaranteed DSO			√	√
	Receivables Risk Elimination			√	√
	End User Training				√

The Corcentric Difference

For business finance leaders who are committed to managing risk and achieving an improved working capital position, Corcentric's Managed Order-to-Cash (O2C) solution is purpose-built to guarantee outcomes across the O2C cycle.

Unlike other solutions, which offer an answer to one or two O2C business problems, Corcentric offers a holistic solution that ensures there are no gaps so that it can deliver real business outcomes to ensure there are no gaps across the organization's O2C operations.

With guaranteed, on-time payments, DSO reduction and elimination of credit risk, Corcentric provides sellers with complete working capital control and unlocks cash from receivables for use anywhere in the business. At Corcentric, the nexus of O2C technology, BPO services and finance represents a differentiated O2C approach capable deliver real business outcomes vital today and in tomorrow's post-pandemic business environment.

NOTES

1. Source: 2020 Working Capital Survey, The Hackett Group. July 2020. Available at https://www.thehackettgroup.com/2020-us-wc-survey-prereg-2006/#:~:text=Hackett%201000%3A%202020%20Working%20Capital%20Study&text=While%20last%20year's%20cash%20gains,liquidity%20for%20the%20months%20ahead.&text=The%20best%20performers%20in%20working%20capital%20management%20by%20industry

Spend smarter, optimize cash flow, and drive profitability.

Corcentric is a leading provider of procurement and finance solutions. We help companies reduce costs and improve working capital by optimizing the way they purchase, pay, and get paid.

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Procurement and Finance Solutions

ABOUT CORCENTRIC

Corcentric is a global provider of market-leading source-to-pay, order-to-cash, and fleet solutions. From the mid-market to Fortune 1000 businesses, Corcentric delivers technology, managed services, and strategic advisory focused on reducing costs, optimizing working capital, and unlocking revenue. Since 1996, thousands of companies have trusted Corcentric's expert team and its suite of world-class solutions to spend smarter, optimize cash flow, and drive profitability. Learn more at **corcentric.com**.