



ACTIONABLE STEPS TO ACCELERATING YOUR CASH FLOW

IMPROVING PROCESSES THROUGHOUT
THE FINANCIAL SUPPLY CHAIN

The SAP Credit Management application helps you make intelligent, purposeful decisions about extending credit to new customers and throughout the relationship with existing customers. It allows you to establish a consistent evaluation process and set global credit standards. You can streamline the sales order approval process by automating and accelerating credit approval.



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EXECUTIVE SUMMARY

ENSURING SUFFICIENT CASH FLOW

While ensuring sufficient cash flow is always a concern, new challenges to liquidity typically emerge in difficult economic times. In particular, banks become increasingly reluctant to lend, making short-term credit lines less certain, and companies, in turn, have to rely more heavily on operational cash flow to meet liquidity needs.

By using SAP software and applying best practices, you can accelerate cash flow, improve days sales outstanding (DSO), and make better decisions when extending credit in the first place, thus reducing the risk of bad debt.

Economic challenges impact customers as well. As customers struggle to meet their own cash flow needs, some may find it increasingly difficult to make payments on time, presenting increased credit risk.

When the economy slows, companies work hard to trim costs, often through aggressive operational improvements. In an effort to squeeze more cash from operations, many also look to reduce inventory levels and increase efficien-



cies. But in the rush to cut costs and shore up liquidity, the same organizations often overlook the opportunity to **improve processes** throughout the financial supply chain. Targeted improvements to your accounts receivable – particularly credit, dispute, and collections management processes – can cut days from the cash conversion cycle and get you cash in hand sooner.

This paper looks at tangible ways to streamline, automate, and prioritize the financial supply chain. It illustrates how you, by using SAP® software and applying best practices, can accelerate cash flow, improve days sales outstanding (DSO), and make better decisions when extending credit in the first place, thus reducing the risk of bad debt.

CHALLENGES IN CREDIT-TO-CASH AND FINANCIAL OPERATIONS

ADDRESSING THE INEFFICIENT ACCOUNTS RECEIVABLES PROCESS

Even when everything is working smoothly, customers usually pay their invoices 30 days after a sale, in accordance with typical net 30 sale terms, and sellers typically wait 30 days to collect cash. But when issues arise during the credit-to-cash cycle – defined as the time between the decision to make a sale on credit and the date the payment is actually received – the 30-day time lag can lengthen. Customers can withhold payment due to a dispute over pricing, refuse to pay because of damaged goods or incorrect shipping quantities, or send only a partial payment. Poor up-front credit evaluations can lead to overdue accounts. All of these problems can extend the length of the receivables cycle – not to mention increase the risk of bad debt – and have a negative effect on DSO and cash flow.

While enterprise software has helped to automate transactions and streamline workflows throughout supply chain operations, customer relationship management, and similar major business functions, the same level of process efficiency has not been applied to

finance. Core accounting processes such as accounts receivable, accounts payable, and treasury operations remain largely manual and ad hoc.

For example, a typical billing dispute may start with a phone call from a customer citing an issue with some aspect of the transaction or invoice. After the call, the company begins to investigate. Depending on the nature of the dispute, e-mails may be sent to the warehouse, sales account representative, or billing department to gather information substantiating the customer's claim. Information is transmitted back to the dispute coordinator via e-mail, fax, or voice mail in an attempt to resolve the issue and determine the appropriate answer for the customer. Throughout the process, hours – if not days – can be lost if employees are unresponsive because they are away from their desk (whether in the field closing deals, out sick, or on vacation) when the inquiry comes in. With no formal workflow, progress tracking, or escalation, disputes can get lost in the shuffle of paper and voice mail, only to be identified in periodic receivables aging

reports. By then, significant time has elapsed and DSO has grown well beyond acceptable tolerances.

The real opportunity lies in making every step within the accounts receivable process as efficient and time-sensitive as possible.

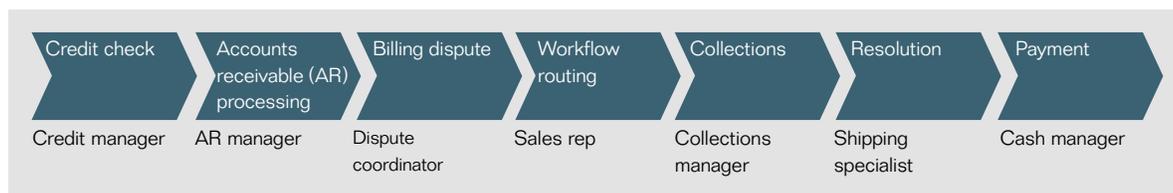


Figure 1: Collaboration of Finance and Nonfinance Roles in the Credit-to-Cash Cycle

THE SOLUTION: STREAMLINE THE RECEIVABLES CYCLE

EFFECTIVE CREDIT, DISPUTE, AND COLLECTIONS MANAGEMENT

Improving your financial supply chain process – and minimizing delays in receiving payments on invoices – requires a systematic approach to credit, dispute, and collections management.

SAP software supports rigorous customer credit risk analysis, evaluation of cumulative risk exposure, and credit policy setting, helping you to extend amounts and terms in keeping with a customer's credit profile. SAP also provides solutions that streamline dispute and collections handling through workflow and collaboration, helping to ensure rapid settlement of accounts receivable and cash collection.

With SAP software, your credit, accounts receivable, and collections professionals can make informed credit decisions, collaborate across departments to quickly and efficiently resolve billing disputes, and prevent past-due bills. The result? Healthy, more predictable cash flow, lower DSO, and reduced bad-debt risk.

Let's examine how to apply the SAP Financial Supply Chain Management (SAP FSCM) set of applications and best practices in each of these areas.

Improving Credit Management

Managing customer credit can be complicated and time-consuming. Inconsistent or incorrect analysis of relevant data can result in credit extended to the wrong customers or needless delays in sales approvals to the right customers. Without a global view of total sales to a particular customer, you could easily

underestimate your exposure to customers who purchase large volumes but have accounts spread across departments or regions. Taking too much time to make credit decisions can result in lost sales or worse, customer defections to competitors.

The SAP Credit Management application helps you make intelligent, purposeful decisions about extending credit to new customers and throughout the relationship with existing customers. It allows you to establish a consistent evaluation process and set global credit standards. You can streamline the sales order approval process by automating and accelerating credit approval. With its sophisticated credit rules engine, the software can evaluate customer creditworthiness based on payment history, financial strength, credit ratings from external parties, and other variables. Throughout the customer lifecycle, you can use SAP Credit Management to evaluate the customer's risk and ability to pay, continuously updating individual credit limits and policies. And dashboards help you get a global view of credit exposure, so you understand your cumulative credit risk by customer, industry, and geographic region.

You can also import external data from providers such as Dun and Bradstreet Inc. to inform your decisions as well as automatically update your credit exposure throughout the customer relationship. As a result, you'll make faster, more informed credit decisions that minimize both sales order delays and your credit risk. You'll also reduce bad debt by proactively managing customer credit risk exposure.



Figure 2: Fast, Consistent Credit Decisions Based on Global Views of Customers

Streamlining Dispute Management

One issue that can stall the credit-to-cash cycle and drive up DSO, regardless of economic conditions, is billing disputes. Billing disputes can arise when a customer finds a problem with an invoice amount or with an order. Resolving a dispute requires cooperation among various departments, from operations and sales to accounts receivable and customer service. Disjointed communications, uncoordinated handoffs, and manual processes can waste time, drive up labor costs, and increase DSO. And disputes that take too long to resolve can negatively impact customer satisfaction.



The SAP Dispute Management application helps you to collaborate fully across departments to efficiently resolve disputes. Powerful workflow and collaboration functionality help you formalize and automate communication among departments. You can assign responsibility for each dispute to a particular person, increasing accountability, and centralize all case-related information in a “dispute case.” The dispute case is an electronic folder that lets

assigned staff view the reason for the dispute, disputed amount, partial payments, communications history, current status, and other information. It also contains supporting documentation such as invoices, purchase orders, and sales orders. The folder is available to everyone working on the case, significantly reducing the time spent trying to find pertinent documents. Finally, the software allows users to create rules on response times and escalations to focus attention on solving disputes with minimal delay. The results can be dramatic: faster dispute resolutions, lower resource costs, reduced DSO, and improved customer satisfaction.

Top Five Reasons to Invest in SAP FSCM

1. Accelerate cash flow with timely collection of receivables.
2. Decrease days sales outstanding (DSO).
3. Minimize cash tied up in billing disputes and overdue invoices.
4. Minimize losses due to bad debt write-offs.
5. Enable collaboration across teams to help ensure rapid dispute resolution.

Enhancing Collections Management

Late-paying accounts can be another problem. Smooth and timely cash collections can be derailed by inconsistent account prioritization, a lack of collection strategy, and poor internal communications. Manual, labor-intensive preparation and follow-up on past-due receivables further extend collection cycle times and lead to higher costs.

The SAP Collections Management application helps collections professionals be more effective in prioritizing and processing past-due accounts and enabling faster resolutions and reductions in DSO. You can implement rule-based collection strategies and automatically prioritize collection activities via work lists, allowing agents to focus on the most important cases first. There is a collection work list with an overview of each past-due account, including current and overdue invoices, dispute cases, and contact history, that helps ensure that agents have all the information they need when contacting a customer. In addition, agents can easily document the results of each customer contact and any promises to pay. Automated workflows facilitate handoffs, streamlining collections and reducing operating costs. And you can proactively target chronic “late pays” to improve collection rates and minimize bad debt.

A COMPLETE, INTEGRATED SOLUTION

OPTIMIZE YOUR FINANCIAL SUPPLY CHAIN

SAP software supports rigorous customer credit risk analysis, evaluation of cumulative risk exposure, and credit policy setting, helping you to extend amounts and terms in keeping with a customer's credit profile. SAP also provides solutions that streamline dispute and collections handling through workflow and collaboration, helping to ensure rapid settlement of accounts receivable and cash collection.

At a time when companies are looking at every possible way to ensure a healthy cash flow, one of the most obvious and effective solutions is improving the effectiveness of your credit, dispute, and collections management processes. SAP Financial Supply Chain Management is a set of robust, integrated applications that helps you handle the multifaceted challenges of managing customer credit risk and accounts receivable cycle exceptions. By improving credit management, you can reduce your risk exposure. By applying more rigorous controls, streamlining dispute processing, and proactively managing late payments, you'll minimize delays in accounts receivable settlement, collect cash faster, and reduce DSO.

For More Information

To learn more about how SAP can help your enterprise better manage cash and liquidity, please visit www.sap.com/solutions/business-suite/erp/financials/index.epx or contact your SAP representative.

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