Order to Cash (OTC) Resource Capacity Planning

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Carl Friedrich Gauss (1777-1855) is credited with creating the statistics concept of a 'normal curve', which is in essence a distribution of the probability outcomes of a random variable.

Every time you calculate collections risk, or generate a cash forecast of your book of business, you are using statistics to predict financial probability outcomes for your company. You do this with available financial data, lots of experience and whatever empirical payer evidence you can get your hands on.

Scott Barnes, a Deloitte Consultant, in a whitepaper last year titled ***"Turning Data into Insights"*** said, *"Organizations that can access the information they need, when they need it – and trust its accuracy – will likely have the upper hand in the marketplace. The quality of your data and the ease with which it can be examined can determine the success (or failure) of your most important business decisions."*

Ask yourself and your collections/dispute management team members if they feel they have easy access to complete and accurate, near real-time client order-to-cash (OTC) data. The answer is usually *"No"* or a qualified *"Yes…but, I have to go into 4-5-6 different places (e.g. ERP systems, Images, siloed databases, spreadsheets, etc.) to get accurate up-to-date information."*

Think about the departmental productivity "hit" each time your resources face the lack of easily available client transactional data. Have you ever wondered how much capacity (Productivity/Time) is actually lost on all the manual and redundant tasks your OTC team has to perform each day? The answer should be an unqualified "Yes".

Recently, in a joint webinar with the Credit Research Foundation (CRF), the topic of **"Crisis Driven Collections Headcount Management"** was highlighted. The presentation reviewed the driving dynamics of OTC teams and how they historically have grown in response to key financial metrics, like DSO reaching unacceptable levels. Management is forced to respond by adding staff, or suffer the negative impact on what is typically 60% of a company's available working capital.

This 'react-mode' or "Crisis-Driven" response, pervades most management cultures today, not intentionally, but more from how it has been done in the past and the fact that there is a lack of good alternatives to help them effect change. Every manager wants their team to move from a reactive environment to becoming a proactive/preventative department. Our research reveals that typically only about 50% of balance carrying customers are being touched on a rolling 30-day basis today. That leaves many untouched receivables transactions and is a major factor in preventing near best possible DSOs.

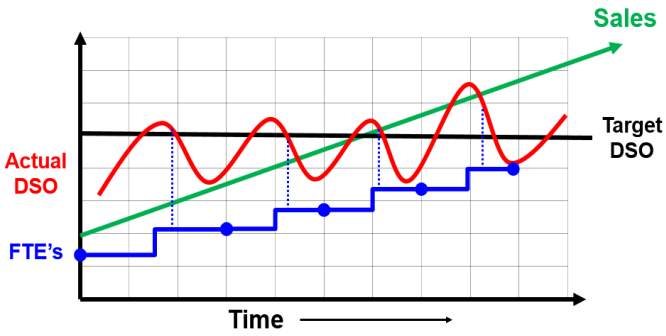
After the CRF Chicago presentation, a number of questions were asked:

"How do we get away from Spreadsheets?"
"How do we get near real-time access to information in disparate systems, or in other countries/languages/currencies?"
"How do we see connections across complex Parent-child relationships? I have collectors in five different locations calling the same Client A/P clerk."
"How do you determine the right staff size?"

All great questions, many of which have been addressed in a series of articles previously submitted by this author and published by CRF (articles available upon request).

That last question: ***"How do you determine the right staff size?"*** continues to be asked by credit professionals, and this topic requires continual attention.

So let's revisit "Crisis Driven Headcount Management" for a minute. As sales revenue increases, exposure to accounts receivables increases (see graph). The size of the credit and collections (C&C) team and number of full time employees (FTEs) covering accounts receivable, is increased to bring down DSO to acceptable levels.



However, the expansion of the FTE headcount does not happen smoothly, but instead it "reacts" after the point DSO has exceeded acceptable financial tolerances. When the 'Actual DSO' exceeds the 'Target DSO', the "reaction" comes in the form of hiring another FTE member or two. This might also come in the form of an "OTC Temp" who *(after you throw their second anniversary party)* becomes a permanent OTC

FTE. This is the Current-State for most OTC teams today. It is the staff you have, but is it the staff you need?

Deloitte wrote an interesting whitepaper titled **"The Scale Paradox"** by John Lucker, Jerry O'Dwyer and Ryan Renner. In it they point out that *"Disruptive technologies, combined with analytics, can help companies on both ends of the size spectrum."* Until very recently *"…large enterprises held significant scale advantages over small businesses in the same industry. The enterprise advantage was one of might. The bigger the company, the more vast and diverse its resources. The most effective financial, customer, and business intelligence solutions were cost-prohibitive for small businesses."*

So what is Deloitte's 'Scale Paradox'? *"Disruptive technologies continue to change how companies innovate and compete. Combined with the power of analytics, they allow small companies to achieve insights once afforded only to large enterprises. At the same time, large enterprises can use these disruptive forces to shorten the time-to-insight and innovate in ways that used to be the sole domain of much smaller and more agile startups."*

One of the key points in the Deloitte paper, is that *"Finally, the notion of data ownership and master data management itself is being challenged by innovative companies that are building repositories of information."*

A leading technology organization sees limited or 'system-hampered' access to critical client transactional data, at the heart of what is challenging many OTC teams today. In addition, accessing that data requires scarce IT resources or even more scarce consulting budgets.

We all know customer master data is spread across multiple systems, currencies and languages. The *"repositories of information"* Deloitte is referencing, contains the critical customer transactional data, which is not aggregated and rationalized (made usable) in one place. This must happen in order to perform meaningful financial analytics or change the priority of what your team will focus on this month, this week, or in particular, *today!*

Most IT departments have a very serious challenge being able to bring all this critical client data together in a 'harmonized' database, and then drive action from it. Even if the IT department is able to harmonize the data, they face what can be an even bigger challenge — to deliver best-in-class business unit performance, using traditional and complex monolithic ERP systems (e.g. SAP, Oracle, Microsoft, PeopleSoft, JDE …etc.). IT professionals know technology, but do not understand the complex world of generating working capital from OTC business processes.

This dual challenge is the cause of many of the 'off-system' processes and spreadsheets, pivot-tables and stand-alone databases, which constrain what your OTC resources (OTC FTEs) can accomplish on any given day.

Finding *"disruptive technologies, combined with analytics"* and then applying near real-time analysis to quickly change operational direction of an OTC team, will directly impact their short, medium and long-term capacity, which will directly impact their ability to influence overall working capital availability.

So what is the alternative to traditional 'Crisis Driven' headcount management?

It comes down to two fundamentals:

1) Each FTE on your team has a finite amount of capacity, or number of events they can accomplish in a given day. Let's call those FTE Events (FTEE's = Collections Phone Calls, Dunning Letters, Invoice Reprints, Risk Calculations, Disputes Resolved, Order Releases, …etc.).

2) How can you: a) increase FTEE capacity; and b) make sure that each FTE is maximizing the value of each FTEE to create greater impact to available working capital.

ERP-based AR automation programs do not consider capacity in their workflow generation. This is a recipe for disaster. Overloading your FTEs ensures you will be back to using spreadsheets to "really plan" FTE activities. In essence, we are talking about FTEE Capacity Planning/Optimizing within your OTC departments and disciplines.

Originally, Capacity Planning was designed for manufacturing to help determine the production capacity needed to meet product demands. What most people do not realize is that in 1986-88, when Motorola was refining capacity planning using Six-Sigma (programs created by Bill Smith [1929-1993], resulting in Motorola receiving the Malcolm Baldrige National Quality Award from President Ronald Regan in 1988), Jack Welch, CEO of GE was also applying Six-Sigma disciplines within GE's finance departments, with tremendous results.

So let's look at what Capacity Planning can mean to your OTC operations. To start, capacity planning is defined as :

www.Businessdictionary.com defines Capacity Planning as: *"Systematic determination of resource requirements for the projected output, over a specific period."*

www.Managementstudyguide.com defines Capacity Planning as: *"…capacity is referred as maximum production capacity, which can be attained within a normal working schedule."*

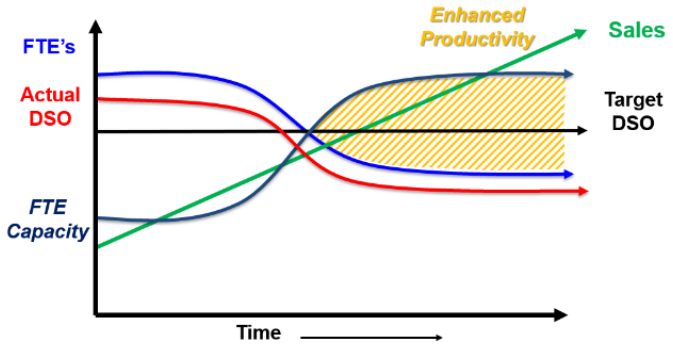
www.Investopedia.com defines Capacity Requirements Planning (CRP) as: *"An accounting method used to determine the available production capacity of a company. Capacity requirement planning first assesses the schedule of production that has been planned upon by the company. Then it analyzes the company's actual production capacity and weighs the two against each other to see if the schedule can be completed with the current production capacity."*

That last definition is great and applies to OTC and Collections perfectly. If you could analyze accurate, near real-time, clean receivables (no disputes, workouts, credits,

concessions,…etc.) across parent/child hierarchy and determine the optimal financial outcome – then analyze the FTEE capacity of your team to accomplish that financial outcome, you would be in a much better position to increase productivity and working capital impact for your company.

SAP and Oracle created *'enhanced credit and collections'* modules, on top of their Accounts Receivable software, to try to better serve critical OTC processes. But, like all monolithic software, ERP systems fall short because they are complex, inflexible and require lots of IT and consultant intervention to create and maintain. This is why specialty credit and collections software companies exist, because ERPs do a very poor job at addressing the critical, fast-paced, exacting OTC world.

Capacity Driven Headcount Management (CDHM), is an alternative Deloitte would likely describe as *"Disruptive technologies, combined with analytics"*. This concept is a very different approach to the traditional "oldest-largest" collections methodology and changes the paradigm of "Crisis Driven Headcount Management" when it comes to FTEs.



The primary way CDHM differs from monolithic software (e.g. SAP, Oracle, Microsoft, PeopleSoft, JDE, Infor) approaches, is in the use of a new disruptive technology which combines meaningful analytics with harmonized data (from many sources), to drive operational change at the OTC FTE level – and to do it *(quite literally)* in 5 minutes.

The differences between 'Crisis Driven' and 'Capacity Driven' OTC team management, are fundamentally simple - the hard part is getting access to transactional information (current and complete data), calculating clean receivables (what is actually collectable), segmenting the high-volume/lower-value clients and treating them with non-call-based zero-touch automation (non-manual interaction), and then maximizing the value of each FTEE to impact working capital.

The big advantages of OTC *Capacity Based Analytics,* is that it gives your OTC team the real-time power (without spreadsheets) to realistically determine how many FTEEs each OTC team, by team member, has the capacity to accomplish. Additionally, Capacity Driven Headcount Management (CDHM) will tell you what each FTEE is worth to your department – which means, how much working capital you can release to your company.

Over the past fifteen years, many OTC systems (both ERP based and stand-alone) have been replaced, and two of the primary change-drivers has been the lack of access of complete and accurate *Clean Accounts Receivable* data and the complete mismatch between what the system was recommending the OTC resource do versus what they could actually accomplish. Does this sound familiar?: "*When my collectors come in, they have 300 assigned tasks to perform." So naturally we always ask: "What does your team do then?"*. Not surprisingly, the response is: *"They ignore the recommendations and work off spreadsheets."*

Unfortunately this also means that you really do not have any consistency across your team's business practices, especially if they are located at different sites, financial shared service centers or are working off different systems of record and you have only spreadsheet (historical) data to review. This becomes even more complicated when you are not able to roll up Parent-Child hierarchies and then, more importantly, execute Zero-Touch workflows.

There are many technology solutions that are new and disruptive, and use empirical MDM (master data management) analytics to help global companies integrate complex and disparate ERP systems in order to improve their global OTC lifecycle management and Working Capital performance. Capacity Driven Headcount Management (CDHM) is brand new and will be a hot topic for a long time to come.

Laura Ford, an E&Y Principal, wrote a great article called ***"A spring board for improvement".*** In it, she points out that: *"The tendency has been to disguise legacy system limitations to end users by building new front-end interfaces or, if necessary, manual intervention. But these solutions have become costly to maintain and have failed to resolve the underlying issues."* Then she asks a great question: *"Have they partnered with the correct system integrator for their unique transformation and desired future state?"*

About the author:

Chris Caparon *is the CEO at Cforia Software, a global enterprise software company. In Chris's fifteen years with Cforia as one of its founders, his methodologies have driven successful outcomes with proprietary real-time data integration tools across complex and disparate ERP and supporting systems of record.*

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