

Attaining Process Value: A Checklist for Enhancing the Value of Credit and Receivables Management

Required Organizational Characteristics

The key to attainment of market leadership is to raise the bar within the organization through the creation of value at all levels. A successful effort in achieving this objective must include several organizational characteristics. The firm must have a process orientation and look at its processes from end to end. It must understand that the key to discovering the future lies in a clear understanding of the present. Communication throughout the organization is imperative. There must be an ongoing search for dramatic improvement, and each process must be thoroughly assessed and structured to attain maximum performance and efficiency. An understanding needs to exist that there is no “*best way*” of improving a process, as each process has its own set of distinct techniques and procedures, and has established its own unique identity.

Adaptation

In today’s business environment of transition and flexibility it is important for the organization to place itself in a position of adaptation and innovation. With technology changing so rapidly, we must constantly re-assess methods and practices to assure that evolving technology provides new opportunities in allowing us to become more effective and efficient in meeting organizational objectives. The key to achieving constant improvement is to impose continuous transformation to the process in an effort to adapt to emerging systems and methods.

Any attempt to install change will be met with a natural tendency to continue business as usual. Organizations and people are inclined to continue with what has been successful in the past and, more importantly, what provides them with a level of comfort. There tends to be a fear of the unknown and of the potential for associated risks. Therefore, a concerted effort must be made to understand these natural tendencies and establish strategies designed to embrace change for the good of the organization.

Value Added

Value added as a concept has, as its root, an investment in business processes. Even though this investment is an intangible and does not appear on the balance sheet, the organization must look to it in the same vain as an investment in any other capital asset. Process enhancement needs to be recognized as a tool essential to increasing organizational worth.

Business process reengineering, total quality management and the like have sought to streamline processes and attain continuous incremental improvement, frequently through the adoption of radical change. As we have now learned through experience, eliminating waste, streamlining processes and cutting staff size does not

necessarily lend to value added for the organization over the long haul. While immediate benefits are often realized, efforts to sustain these benefits commonly fail as the organization has inadvertently handicapped itself. The inevitable demands placed upon the business by future incremental revenue growth can not be met, as the resources required to meet this growth have previously been pared back or completely eliminated.

A less radical approach to process enhancement should be embraced by the organization through the adoption of a framework of options that can be applied to overall process improvement. Utilizing many of the tools suggested by advocates of business process reengineering and total quality management, process managers can form a checklist by which to continuously assess process behavior for its value to the organization. The checklist may be employed to identify issues integral to assuring that the process is being performed in a manner that reflects maximum value to the firm.

The Receivable Management Process

According to a recent study conducted by The Credit Research Foundation, for the majority of today's businesses, receivable portfolio managers are saddled with the responsibility of managing the firm's single largest asset. The opportunity to add worth through continuous incremental improvement to the receivable management process has the potential of becoming a key factor contributing to the enhancement of the firm's economic value.

To assist in attainment of value added in this process, a checklist of enhancement measures should be developed and referred to routinely. The checklist can contain options that are basic in nature and limit investment, change or risk. These options might also address more complex issues requiring radical implementation. The checklist should be devised after careful consideration. It should identify those components that are most likely to lend value when applied to process improvement, and in getting the process right.

Value Enhancement Menu Items

The following menu identifies typical options for value enhancement in the management of the receivable portfolio. Through examination, the receivable manager can tailor a framework of process enhancement measures by adopting those that meet the organization's unique requirements, and adding additional items on the basis of perceived need.

- **Examine payment terms:** Do early payment or cash discount incentives add to shareholder value? Frequently they don't. (A reduction in cash discount of _ % has the potential of adding 6% annually to the bottom line on those transactions in which cash discount is taken.)
- **Focus on what you do best:** Identify those functions which you are most proficient at, and outsource the rest. Don't squander resources on fringe activities that lend minimum value to the firm. (If 85% of your receivable portfolio is focused in your top 125 accounts. Surrender the other 2,500 accounts to a third party. Better you as the process manager identify this as a value added initiative for the

firm, than having to comply with a directive to outsource, coming from upper management.)

- **Carefully scrutinize each step in the process:** Ask yourself if individual procedures employed lend to efficiency. If a procedure can be eliminated with minimum impact on proficiency, eliminate it.
- **Use what you know to find out what you don't know:** Focus on the present. Identify the assets that are currently utilized in process attainment. Organize these assets. Having accomplished this you can quickly decide what is being overlooked and move towards implementation of those items that may lend process value.
- **Do it yourself:** Take total ownership of the process. Segregating the process between various process groups lends to inefficiency, as workflow becomes interdependent. Center the entire process at a single customer contact point. (Orders that are taken by order entry, passed to customer service for processing, credit for approval, distribution for fulfillment, then billing for invoicing, tend to get waylaid along the way.)
- **Have your customers do it:** Shifting the burden of processes to your customer can lend tremendous value to the organization if it is done without jeopardy to customer relations. (Shipping goods to a centralized shipping point and having the customer bear the burden of distribution to individual store sights can frequently be negotiated with your customer. A price concession in the form of discount could be offered at a fraction of the cost incurred in freight, distribution expense, administration, and losses resulting from deductions for lost shipments, misdirected paperwork, etc.)
- **Streamline the process:** Analyze all components of the process with the intent of eliminating waste, extra steps, delays, and cost. Re-engineer the process employing best practice methodology and latest technologies. (The practice of retaining paper files or microfilmed libraries should give way to automated online record retrieval.)
- **Don't hesitate to borrow from another industry:** Identify the industry that has the most experience with a specific process, and seek suggestions for process improvement. (For hints on improving the cash application process, ask your banker to arrange a meeting with his lockbox department. Help from the banks credit card department may be sought in effecting improvement to the processing of credit applications.)
- **Establish an internal web:** Create an internal Internet site (Intranet). This facilitates a communications infrastructure that enables interdependent individuals to interface interactively from their respective workstations. It can serve as a vehicle for training, and tied to the Internet, and external process related sites, it provides an information reference point for process team members.
- **Cultivate a culture of cooperation:** Foster an environment of smooth and effective interaction between interdependent process team workers. (An alliance

between sales/marketing, and customer financial services, lends to solid customer relationships, and serves to streamline the order to cash process).

- **Exercise creativity and vision:** Pursue methods designed to create process efficiency by breaking from traditional techniques and adopting procedures designed to exploit current technology and system process theory.
- **Understand that the firm's single largest investment is in its people:** Remembering that the organizations key asset is its workers, managers must be prepared to treat them as such. Encourage an environment that promotes interpersonal development in education and skill sets. Provide process team members with ownership to the overall process. Empower them to make decisions. Make people feel good about their accomplishments. (Remember that praise for a job well done is the cheapest form of compensation.)

1999 by Credit Research Foundation, Inc. Columbia, Maryland. All rights to this material are reserved.

No part of the material may be reproduced in any manner whatsoever without written permission from CRF