

HOW SMALL TO MEDIUM
BUSINESSES ARE IMPROVING
CASH FLOW & REDUCING
COSTS WITH CREDIT &
COLLECTIONS AUTOMATION

INTRODUCTION

Small to medium businesses that automate collection management and dispute resolution realize an immediate and substantial increase in cash received. These companies have come to understand that the benefits of a fully automated receivable management process are transformational.

However, many organizations of this size are faced with challenges due to lack of IT support or capital for up front software costs. That is why they are turning to a subscription based service delivery model for software. Software-as-a-Service (SaaS) means that companies can implement software and begin to benefit immediately by accessing software via the web using a subscription based program.

Improve Operational Efficiencies

"We were operating in a manual environment and required an automated solution that would help us reduce the time the credit and collection team spends on performing administrative tasks by introducing workflow automation. We also needed visibility into our deductions in order to reduce our dispute cycle time and manage our bad debt expense. AvantGard's 'On-Demand' or Software-as-a-Service (SaaS) model will help us meet these objectives without the upfront capital costs traditionally associated with software procurement."

- Carlos Fabbri, Chief Financial Officer, Sobel Westex

COMPUTERIZATION WITHOUT AUTOMATION...HOW DID WE GET HERE?

We all know that the advent of the corporate computer brought about significant change. As accounts receivable departments became computerized, companies saved time because they were now able to update receivables much quicker than when it was done manually, and they saved money because they needed fewer data-entry clerks.

However, it soon became evident that by introducing computerization to the process, we actually lost crucial information sources such as ledger cards, which among other purposes, provided collectors with an area to record collection details. Collectors relied on these cards to track key information used during the collection cycle. As new methods of maintaining this information emerged, the collection process started to become fragmented and chaotic. Handwritten notes, call logs, random correspondence, and payment records were stored in a variety of places, causing a loss of corporate intelligence, poor organization, and a decrease in a collector's ability to do his or her job.

Rather than create an efficient, highly automated collection environment, computerization had instead mutated the manual collection process into a disorderly arrangement of disconnected tasks. The gains realized by the accounts receivable department were offset by the new demands put on the collection cycle. Credit analysts were also put at a disadvantage, as few tools existed to evaluate and house data.

Further, collectors were finding themselves overwhelmed with clerical activities which prevented them from effectively and strategically managing the collection cycle. In this situation, performance suffers, and credit personnel are increasingly stressed trying to effectively maintain hybrid systems that have evolved from the early years of the information age.

HOW TECHNOLOGY IS HELPING TO CHANGE CREDIT

Automated decision systems, credit scoring, data warehousing - these tools are great for fulfilling the classic role of the credit professional: landing the business. They can dramatically accelerate the speed of decision making, lower the cost of sales, and improve cash flow. And they do it by putting the routine credit decisions where they belong - on your sales reps' laptops. The big payoff from the technology revolution is not so much the ability to crunch numbers. It's the ability to locate information and to use it intelligently.

New systems are emerging. Systems that are designed specifically for the credit and collection industry, and specifically for the small-medium business. These systems are built by credit and collection professionals, and are developed to automate the collection process and do so in such a way that there are not heavy investments in IT or software licensing costs. The result has been a shift, from the manual processing of clerical tasks to an automated system with mass faxing, call scheduling, account management, contact management, prioritization, tracking and reporting – all available via the web. These activities can be performed more efficiently when facilitated by an automated system, leaving more time for the collector to make contacts and perform tasks that simply cannot be automated.

THE COLLECTIONS PROCESS - UNDERSTANDING THE NEED FOR AUTOMATION

Now more than ever, collectors are finding themselves unable to perform their jobs effectively because they do not have the right tools. Instead of spending their time with the customers, they are chasing down information, and re-organizing the information so that it is in a format they can use, and in many cases, toggling between an A/R system, a spreadsheet program and a slew of paper. The benefits from fully automating the collection process are transformational. Rather than spending most of their time gathering information and documenting problems, collectors using an automated collection system are able to devote the bulk of their time to contacting overdue customers. The result of this renewed focus on a collector's core responsibility is, not surprisingly, much improved corporate collections.

In effect, automation provides collectors with a scarce commodity - time. The primary advantage of a fully automated system is the capacity to contact two, three or even four times as many accounts each day. A re-engineered computerized collection system will also create its own intelligence. There will be a sharp increase in calls and mass correspondence sent. As a result, companies that automate collections can realize an immediate and substantial increase in cash received and an on-going improvement in all measures of collection performance.

THE COLLECTIONS CYCLE...

The collection cycle consists of five distinct steps: prioritizing, preparation, contact, follow-up, and reporting. By eliminating or automating many of the clerical activities that consume so much time within these stages, collectors will have more time to spend making contacts. An automated system helps facilitate the process, bringing organization and strategy to each step.

Prioritizing

Determining which accounts to work on, who to call first, and when to send correspondence is critical to an effective collection system. When prioritizing is performed manually, it takes a considerable amount of time and the outcome is often inconsistent. Valuable time is often lost in the very first step of the collection cycle.

Preparation

Gathering information and resources will enable collectors to effectively and intelligently ask their customers for payment. If this information is not available from a single location, the collector will need to spend extra time hunting and gathering in preparation of each contact. An automated system can bring organization, classification and categorization to this step.

Making the Contact

This step is central to an effective collection operation. The more contacts that can be made, the faster the money will be collected. Contacts can be made on several different levels. Depending on the situation this may mean a personal call, a fax, email, letter, statement or voicemail message. It is unlikely that a single method of contact will get the job done, so there should be guidelines indicating a strategy of how and when the different tools should be used. By instituting a strategy, the results can be evaluated periodically and the methods can be adjusted as necessary.

Follow-up

Without effective follow-up procedures, a collector's efforts at making contact can be rendered a waste of time. Follow-up includes every activity that is necessary to consummate the collection. Ideally, follow-up activities will be executed during the contact process, while the customer is still on the line, or within seconds of the call's termination. Many of these clerical tasks can be automated, freeing the collector to make more contacts while ensuring that this crucial step is completed.

Reporting

Without feedback, it is impossible to measure the effectiveness of the collection function. The data organized during the reporting phase of the collection process provides valuable information that can be used to adjust strategies in the future. In order to obtain the maximum from collection efforts, it is vital to put into place a systematic approach to evaluating the effectiveness of your system and activities. This information will also prove to be of value to the sales and customer service organizations. Using reports, collectors will be able to better prepare for the next contact, which will in turn, improve each step of the collection process.

GOALS OF AUTOMATION, STRIVING FOR DRAMATIC IMPROVEMENTS

Simply automating current practices will not bring about dramatic improvements. In order to truly see results, there must be a solid understanding of the collection process, allowing for real improvement. By starting with the collection cycle, a number of opportunities become obvious.

Since much of the cycle is spent on support activities - prioritizing, preparation, follow-up and reporting - it makes sense to eliminate, shorten or otherwise reduce the time spent performing purely clerical tasks. If collectors can increase their daily contacts they will most likely increase their chances of bringing in more money faster.

- Shorten the time spent on support activities.
- Increase the time spent contacting delinquent accounts.
- Increase the effectiveness of each contact.
- Increase the number of contacts that can be made within a set period of time.
- Provide immediate follow-up documentation to customers.
- Rely on a single integrated database.
- Disseminate information gathered during collections throughout the entire organization.
- Generate additional feedback.
- Support improvement in the professional and communication skills of the collection staff.
- Gather information used to evaluate the effectiveness of strategic planning.

IMPROVE CASH FLOW & REDUCE OPERATIONAL COSTS

The Musculoskeletal Transplant Foundation (MTF) a non-profit service organization dedicated to providing quality tissue through a commitment to excellence in education, research, recovery and care for recipients, donors and their families. MTF is a growing organization with revenues of approximately \$230 M USD. They were faced with continuous growth causing an increase in accounts receivable without the ability to add new resources. As a result, they were looking for a solution to help automate processes and drive workflow for improved financial performance.

Anne Marie Graci, Accounts Receivable Supervisor, at MTF explains: "We selected the AvantGard solution because it could provide the functionality and the cost requirements we needed to help us effectively and efficiently manage our disputes and lower our DSO and thus increase our cash flow."

As a result, MTF interfaced AvantGard's Receivables Solution with QAD to improve productivity, reporting and performance. They are managing 5,000 active customers in a centralized credit operation.

- Reduced Manual Processing so Resources Can Focus on Collections
- Easily Identify & Assign Disputes for More Timely Resolution
- Use Mass Correspondence to Increase Customer Contacts

MTF has improved the efficiency and effectiveness of their credit operation, resulting in improved cash flow and reduced bad debt expense.








- Productivity Gains: Maintained Headcount with Increased Revenue
- Reduced Past Due A/R (90+) by 30%
- Lowered DSO by 2 Days
- Decreased Dispute Resolution Time from 8-12 Months to 2 Months

STRATEGICALLY MANAGE YOUR ACCOUNTS

An automated tool that can be configured to initiate different actions at pre-defined intervals will help you manage the collections process, ensuring that every customer is contacted by fax, email or phone using pre-established templates and scripts. The outcome is a dramatically more efficient and standardized approach to managing accounts.

In fact, you can even configure the system to automatically send the customer a courtesy reminder notice several days before an invoice is due. Without an automated tool, this would probably not be possible, especially if you are dealing with a high volume of transactions.

The system will evaluate all invoices, and if an invoice is coming due, it will automatically fax or email the customer, sending a courtesy note as well as the necessary back-up materials. Each customer group (such as small, medium, large) can be assigned a different collection strategy, depending on how you want to manage that type of account.

Timing	Method	Message	Stage
5 Days Before Invoice is Due	 Email / Fax	Invoice is Coming Due.	Courtesy Reminder
3 Days After Due Date	 Email / Fax	We Noticed You're Late.	Reminder
5 Days Later	 Call	Is There a Problem?	Solve Problem
5 Days Later	 Email / Fax	Your Invoice is Past Due.	Serious
2 Days Later	 Email / Fax	Notify Sales. Possible Credit Hold.	Management
7 Days Later	 Call	Express Deep Concern.	Compulsion
10 Days Later	 Email / Fax	Final Demand.	Final Notice

Each unique customer group can be assigned a different strategy. For instance, on smaller accounts, with small dollar amounts, you may wish to automatically fax reminder notices without ever placing a call in a collector's call queue. However, for medium sized accounts you may decide to use more call activity and less faxing or email. For very large accounts, or those requiring special attention, you may not fax or email at all and instead set each step in the strategy to be a call.

ACCELERATING CASH FLOW

Nobody will argue that enhancing cash flow has far-reaching benefits for today's corporation. It has also become a critical measure of an organization, often carrying more weight than profits or shareholder value. Paper profits can turn worthless, and shareholder value can plummet in the face of a liquidity crisis. When a company stops generating positive cash flow, tough times are not far behind. Growth is impacted and investors stay away. When cash is dear, capital improvements are canceled or delayed, hurting future capacity and productivity.

One way to enhance cash flow is to set aggressive goals for Days Sales Outstanding (DSO). Very simply, a low DSO means a faster cash flow. A company is better off if it can turn over its receivables every 40 days rather than every 50 days. Over the course of a year, improvement of that scale means accounts receivable will turn over nearly two more times than before. Not only that, but accounts receivable will have been reduced by 20 percent. If the accounts receivable balance was \$10 million when the DSO was 50 days, it drops to \$8 million when DSO is reduced to 40 days, all else being equal. That is \$2 million the company can put in its bank account without having to sell more. Assuming that DSO does not subsequently rise, that money can be invested in the future, translating to ongoing profitability of the organization.

INCREASING CUSTOMER CONTACTS

It is common for the number of collector contacts (voicemail messages excluded) to more than double as a result of automating the collection process. This should be institutionalized as a goal of the change process. Obviously, the more contacts made, the more receivables will be collected. Just by doubling the number of contacts (or in a sense, collector productivity), tremendous performance gains can be realized. This type of target can also be broken down into subsets - primarily, the number of phone calls that connect with a customer's representative and faxes sent.

One idea to keep in mind when re-engineering the collection process is to use as few steps as possible to accomplish any necessary tasks. In so doing, unnecessary steps are eliminated while those that remain are simplified as much as possible. This results in a very streamlined process that takes less time than was required with the old procedures and, because it has been simplified, is also less likely to generate errors. Redesign and automate several collection activities, and each collector starts recovering a significant amount of lost time. Time that is currently spent tied up in clerical tasks.

IMPROVING QUALITY AND EFFICIENCY

Quality goals can sometimes be elusive targets, especially when not well defined. What can be measured are lapses in quality, and the reduction of those items provides useful metrics. In terms of collections, the problems that most often arise are customer service issues. A goal to cut the average time to resolve disputed invoices from 120 days to 60 days will require dramatic improvements in the resolution process as well as the elimination of the disputes causes in the first place.

The ability of an automated system to track and identify recurring problems helps tremendously in bringing invoicing and pricing issues to a quick resolution. Being able to track the involvement of people from other departments within the company allows collectors to deal more effectively with customers while encouraging their fellow workers to resolve outstanding issues.

REDUCING COSTS

More efficient collection procedures not only give a company more value for each dollar it has been spending but will actually reduce the number of dollars it spends in the future. Automating collections is no small undertaking, and it will cost the company a few dollars, but the payback period can be quite short because future expenses have been reduced. This is why making a half-hearted investment in collection technology or trying to automate collections cheaply does not make sense. If it is done right in the first place, a very reasonable payback on the investment can be expected.

Over the long term, bad debt expenses will be reduced. Automated collections will enable a company to reduce the average age of its accounts receivable, which also serves to reduce the amount of risk in accounts receivable. Down the road, there will simply be fewer and smaller bad debt write-offs. Fifty percent reductions in bad debt expense are not uncommon for companies that automate collections. Such improvements will add significant profits to a company's bottom line over time.

BENEFITING FROM AN AUTOMATED COLLECTION SYSTEM

The single most clear benefit to an automated collection system is the ability to collect your receivables faster. The rapid collection of accounts receivables is vital to the success of any company. Automation translates to structure and organization. By employing a system to manage and prioritize calls, send correspondence and track the results, companies can become proactive in their approaches. Collectors and analysts should be spending their time with the customers, or with the data, using their knowledge and skills to reduce DSO and increase the cash collected. However, all too often, their time is wasted as they wade through a sea of clerical tasks such as faxing, letter writing, and the practice of gathering data.

Imagine a system where collectors will be able to schedule appointments, maintain records of contact, prioritize contacts, set reminders and faxes, email or post mail right from their desktops while talking with the customer. This is possible, and many companies have instituted systems to make this happen. These companies report tremendous results immediately after implementing the systems. An automated collection system works as an organizational, scheduling and clerical tool for collectors and analysts. If the tool is designed specifically for credit departments, it will be able to easily integrate with the company's workflow and business model.

Reduce Time Spent Managing Disputes

“Our accounts receivable processes were manual and we were constantly wasting time on administrative tasks. Our dispute volume was also increasing and we lacked visibility and control to effectively manage them. While we knew we needed automation technology, we lacked the capital and resources required to implement a traditional licensed-based receivables management solution. AvantGard’s ‘On Demand’ solution met these challenges offering a monthly subscription-based model without the costs of hardware or ongoing maintenance. We can now focus our efforts on increasing our cash flow and reducing our dispute cycle time and volume.”

- Travis Kirsch, Chief Financial Officer, Fibergrate

AN AUTOMATED APPROACH TO INVOICE PROBLEM MANAGEMENT

The timely management of invoicing problems can make a dramatic difference in your ability to collect outstanding balances. Additionally, it will effect your customer relationships and help tighten your operating ratio. This can be accomplished by instituting a system to help manage and track your problem invoices.

With less disputed transactions, collection activities will be more effective, decreasing the carrying costs of receivables. Increased customer satisfaction and a more proactive approach to dispute resolution will also result in less relationship deductions, contributing more to the bottom line.

AUTOMATICALLY ASSIGN A PROBLEM OWNER & SEND NOTIFICATION

When a new problem is logged in the system, an automated tool can assign a specific problem owner. Upon problem assignment, the system can automatically send email notification to the problem owner. Then, using a remote connection, or via a network connection, the owner can log into a central system to view the problem.

PROBLEM TRACKING

Once a problem is logged in the system and an owner is assigned, and notified, the system can continue to manage the process by tracking the problem. Using pre-built Auto-escalation Chains, configured with time intervals and pre-defined managerial levels, the resolution process is managed by the automated system. Critical functions of problem tracking:

1. Separately identifies problems from other past due items.
2. Identifies recurring disputes.
3. Allows quantification of problem types.
4. Enables prescribed strategies to be used to resolve problems.
5. Tracks contacts with other internal functions.
6. Ensures timely resolution.

If your customers are not paying because of problems with their invoice, whether it is due to pricing, shipping issues, or other discrepancies, that information must be handled appropriately to not only collect the balance due, but also reduce recurrence of the same problem, while maintaining a high level of customer satisfaction. For many companies, the reality is that over 70 percent of disputed invoices are simply written-off, and for some that figure is as high as 95 percent.

Good news for the customer maybe, but is it good news for you?

Leverage Web Based Technology

“We have experienced an increase in volume due to higher sales, and as a result did not have the resources to manage our accounts receivable. We selected AvantGard GETPAID to help us manage our accounts receivable cost-effectively via a web-based delivery model”.

- Enrica Staeger, Treasurer at Wüsthof - Trident of America

IMPLEMENTING AN AUTOMATED COLLECTIONS SYSTEM

If a company allows its competitors to collect money faster, then the company will be fighting an uphill battle on several fronts. First, the company that does not automate collections will be paying additional carrying costs on funds tied up in their accounts receivable as opposed to those companies that automate. Second, the company that automates is more likely to be paid by any cash-strapped customers at the expense of its non-automated competitors. Last, companies are able to use the intelligence created by their automated collection system to improve other business processes and enrich customer satisfaction - chores that a manual collection process does not accomplish.

If automating collections is clearly advantageous over collecting with a manual process, then the question of cost must be addressed. The tangible costs of purchasing and implementing collection software, as well as the hard dollar benefits, are calculated easily enough. In contrast, the physical time and effort to install collection software is not so easily quantified. However, the good news is that automating collections does not have to be a long, drawn-out, difficult process.

For one thing, it is not necessary for every company that wants to automate collections to re-engineer the collection process. A good collection software package will have already done that. For most, if not all, companies there is no need to re-invent the wheel by designing a proprietary collection process. In addition, installing collection software is not the same as installing or upgrading accounting software. With the latter, there is usually a period of running parallel, during which both the old and new systems function in tandem until there is an assurance that the results from the new system are identical to those of the old. With collection automation software, this is not necessary because the software does not affect financial record keeping.

Also, because collection automation software draws information from the accounts receivable database but does not send any data back, customization is minimal. The collection software can be configured to interface with any accounts receivable system. As a result, many companies that have chosen to automate collections are able to complete the project in only a month or two.

THE OUTCOME OF AUTOMATING A RECEIVABLE MANAGEMENT SOLUTION

Once the decision has been made to automate the collection process and collection software has been selected, it is not unreasonable to expect a return on this investment by the next fiscal quarter. Time and time again, automated collection systems have started yielding dividends almost from day one, with significant results achieved within the first 4 to 6 weeks. For many companies, deciding what to do takes longer than that. The decision to automate collections should not be taken lightly, but in the final analysis, it is the key to dramatically improving collections.

Once the system is in place, all areas of the organization will be working together to improve processes and procedures throughout the organization. By applying a strategic approach to collections, eliminating clerical tasks, detecting problem areas, and gathering the necessary data to produce detailed analysis, change can be instituted.

An automated and strategic approach to receivable management will be a driving force; gathering critical information, disseminating the information, tracking progress and reporting on the results for ongoing internal process improvement.

Manage a Growing A/R Portfolio

"As the number of transactions that we process continues to grow, our credit department can no longer effectively manage our accounts receivable (A/R) manually. Since we have a limited credit department, allocating our IT budget to software licensing is not practical. The AvantGard GETPAID On Demand solution will help us to cost-effectively automate our processes and lower our DSO."

- Ross Windsor, Chief Financial Officer, MGM Transport

www.sungard.com/avantgard

ABOUT SUNGARD AVANTGARD

SunGard's AvantGard provides real-time visibility into cash flows and increased operational controls around treasury, receivables, and payments management. Customers turn to AvantGard to help them improve management of working capital, mitigate risk, and strengthen internal controls for regulatory compliance.

The AvantGard solution aggregates data for a single view of cash, drives productivity through automation, fosters enterprise wide collaboration, and facilitates connectivity between the ecosystem of suppliers, buyers, banks, trading partners, and customers.

Offering Best Practices and Subject Matter Expertise

Drawing on the experience and best practices gained from supporting over 20,000 users worldwide, AvantGard offers more than just technology. AvantGard offers ongoing support services and process consulting from Subject Matter Experts to help maximize return on investment of time, capital, and resources.

AvantGard customers have demonstrated significant bottom line results such as improved management of cash, reduced risk, increased cash flow, and lower operating costs.

Visit www.sungard.com/avantgard to learn more.

SUNGARD AVANTGARD ■ email: avantgardinfo@sungard.com ■ www.sungard.com/avantgard

Copyright ©2008 SunGard. Trademark Information: SunGard, the SunGard logo and AvantGard are trademarks or registered trademarks of SunGard Data Systems Inc. or its subsidiaries in the U.S. and other countries. All other trade names are trademarks or registered trademarks of their respective holders.
2008_1 v1 EN