SERRALA

Cognitive O2C Management

A journey through the order to cash cycle – powered by artificial intelligence, machine learning and robotic process automation

Digital transformation and market trends continue to disrupt businesses and the finance department, order to cash (O2C) processes in particular. Today, repetitive, rule-based O2C tasks such as cash application can be fully automated using the latest technologies like robotic process automation (RPA). Other O2C processes will be able to use machine learning (ML) and artificial intelligence (AI) to revolutionize risk assessment, visibility, reporting, and customer engagement in the near future. In fact, intelligent automation already offers many cost saving possibilities and benefits. For instance, in accounts receivable (AR) management, some solutions in the market are able to reach automation rates of up to 99% in matching incoming payments and open items. In credit management, other solutions are able to reduce customer onboarding process time by up to 90% and reduce DSO by 50 to 60%. However, even if automation rates in O2C reach unprecedented highs, many credit and AR teams are still struggling with inefficiencies caused by decentralized information, insufficiently staffed teams and highly manual processes.

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O2C   Other   **R2R**

Cash

P2P

Payments

26% say Order to Cash is greatest priority, but modernization is needed everywhere.

The journey has just begun

The "Future of Finance" survey, published by the B2B fintech company Serrala, states automation as a top priority across all finance areas. 98% of all interviewees believe increasing automation is the most important priority in finance, coming well before payments control (71%), streamlining disputes (33%), and improving audit response times (29%). The survey also demonstrates that the automation of O2C processes is the most important priority (26%) for companies, ahead of procure to pay (P2P), payment management, cash visibility, and record to report (R2R) processes. According to the survey these results are driven by the top three challenges facing finance departments today: adopting new technologies, rapid business changes, and centralizing processes.

Another survey conducted by IDG indicates that cloud seems to be the most accepted technological innovation. It points out that nine in ten companies are already in the cloud or plan to be by the beginning of 2020. And according to Forbes, 45% of organizations plan to migrate BI, data warehouse, and analytic applications to the cloud in the next one to three years.

While amazing opportunities for digital transformation exist, many finance departments are still in the early stages of technology adoption and change is happening slowly. One reason for this resistance to change is because many legacy systems are still running well. As the adoption rate of cloud and cognitive technology increases, however, more organizations will realize that there is no time to wait.

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The future of finance automation

Increasingly, we have seen cloud evolve from a promising innovation and novel approach to a fully-fledged technology, expanding across industries. It is becoming an integral part of the corporate strategy in most organizations. Yet, despite its promise, the full potential of cloud technology remains largely untapped.

Compared to traditional ERP systems a cloud environment offers several benefits. Cloud solutions can be easily scaled up or down, depending on the business demand and size. This offers businesses a lot of flexibility. Accessing, editing and sharing documents and updates anytime, anywhere, is also a lot easier. Furthermore, cloud providers automatically update applications, which frees companies from maintaining the systems themselves. On top of that cloud solutions have a lower total cost of ownership (TCO) compared to on-premise systems. Subscription-based pricing models cut out the high investments into hardware. Plus, the automated backup and recovery saves time and effort.

If companies want to be able to leverage available innovations with cognitive applications, the cloud should be their first choice. Only highly-scalable solutions have the necessary processing power and access to large data sets required to take advantage of advanced cognitive features. This includes ML, RPA, natural language processing, neural nets, and AI. These technologies can uplift finance operations to another level. Why? Because they can process and transform vast amounts of data faster and more intelligently than is possible with humans. Bots automate repetitive, rule-based activities and self-learning algorithms explore data connections, identify patterns and discover relationships delivering greater insights.

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O2C driven by cognitive technology

For O2C processes, cloud and cognitive technologies have the potential to automate manual repetitive tasks and transform the end-to-end process to deliver greater value to the organization. It brings together information, automation and personal interaction in the exact right balance to ensure an optimal allocation of resources. This way knowledgeable staff has more freedom to work on complex tasks that require good judgement and nuanced decision-making. The following examples illustrate how cloud and cognitive technologies can help companies improve their O2C processes.

Sales and orders

Proper order management requires accuracy. The customer's master data must be up-to-date and correct, so orders can be processed quickly and sales can be concluded. Many ERP systems fulfill these requirements easily, automating order processing using RPA and alerting users only when manual intervention is required. Cloud and cognitive technology extends the value of this automation by using the information gathered to analyze and predict customer behavior. Intelligent algorithms learn from historic sales data, anticipating customer decisions and recognizing customer needs ahead of time. Digital online platforms and client portals, along with mobile or Internet of Things (IoT) devices, increase customer engagement with chat bots or targeted human interactions. AI increases this engagement by intelligently suggesting personalized offers, such as trade promotions or discounts, throughout the customer journey. This creates a more customer-oriented digital experience.

Credit management

Just as customer behavior can be predicted with machine learning, so can credit risk. Cognitive technology is able to process massive amounts of structured and unstructured data. Based on that information, credit managers can develop new scoring models and methodologies. By combining the power of cognitive technology with knowledgeable credit managers, organizations can make faster and more accurate credit decisions than ever before. New data sources – machine logs, images, videos, biometric information, and social media feeds – can also be used to improve the scoring process. The key to leveraging this type of information lies with solutions that can process vast amounts of data and make sense of them. Intelligent software can evaluate which data is relevant to determine credit limits, predict payment behavior and analyze credit, compliance or fraud risks.
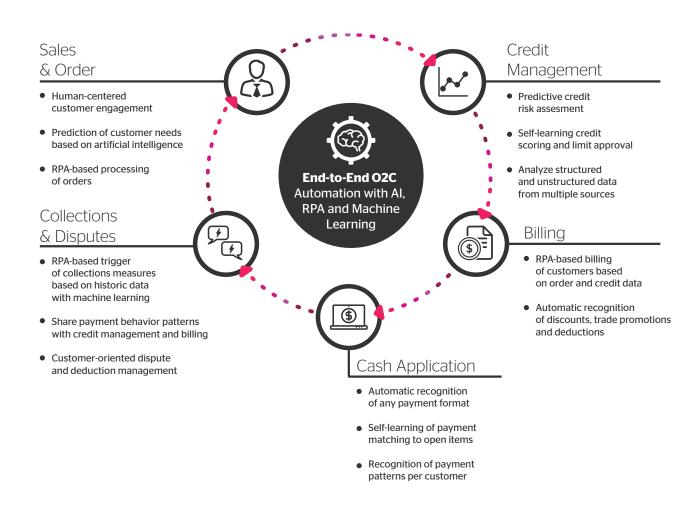
Billing

Efficient, automated billing begins with automating the related upstream O2C processes: sales orders, credit assessments, and invoice creation. By connecting and automating the different process strands, all the data collected can be used during the billing phase. For example, discounts can be automatically applied based on historic customer data, such as past payment behavior or contract terms. This data can also be used to set or adjust terms of credit and payment due dates.

Cash application

Highly automated cash application is a reality today with market leading innovations such as RPA and ML. These technologies can capture different payment formats and match them against open items. Cognitive technology can also automatically recognize and validate the unstructured data that customers send in remittance advices and other documents. And, as businesses face increasing complexity and growing data volumes, these intelligent processing capabilities will become more important in the future. For example, more advanced cognitive solutions can leverage the knowledge earned during the cash application process, such as a customer's preferred payment method to improve upstream order and billing, increasing the overall efficiency of the O2C process.

Collections and disputes

Bots with embedded machine learning can use the data produced along the O2C process to automate the entire collections process. These bots initiate collections based on previously effective collections measures for the specific customer: telephone calls, emails, or mailed payment reminder letters. Advanced cognitive applications can improve this automation by gathering data about the individual case and suggesting appropriate escalation strategies from the initial collection approach all the way to litigation. This intelligent process automatically adjusts credit limits and payment terms for the specific customer. Automating the dispute management process would be similar, with dispute escalations powered RPA, ML and AI providing the possibility for human intervention when it makes sense.

Sales & Order
- Human-centered customer engagement
- Prediction of customer needs based on artificial intelligence
- RPA-based processing of orders

Collections & Disputes
- RPA-based trigger of collections measures based on historic data with machine learning
- Share payment behavior patterns with credit management and billing
- Customer-oriented dispute and deduction management

End-to-End O2C Automation with AI, RPA and Machine Learning

Credit Management
- Predictive credit risk assesment
- Self-learning credit scoring and limit approval
- Analyze structured and unstructured data from multiple sources

Billing
- RPA-based billing of customers based on order and credit data
- Automatic recognition of discounts, trade promotions and deductions

Cash Application
- Automatic recognition of any payment format
- Self-learning of payment matching to open items
- Recognition of payment patterns per customer

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Focus on industry: practitioners' view

Many companies are still only thinking about adopting cognitive technologies or are in the very early stages of implementation. However, some pioneers have begun automating their O2C process, using RPA and ML to optimize their risk and receivables management. The area where this is most developed is definitely cash application. The repetitive and rule-based nature of matching activities, makes cash application the perfect starting point for process automation within the O2C cycle. Credit, collections and dispute management can be significantly improved by applying intelligent automation as well. Below are some experiences by companies from different industries and markets. The results are very promising and showcase, what is already possible today.

Breaking through former limits in cash application

Nordson, a precision technology company with worldwide exposure, has improved matching rates from 45% to 85% for all of Europe. They now have full insight into all cash flows accounted by fixed rules and automated processes that ensure greater accuracy. The result for Nordson is a positive impact on the DSO and improved process efficiency and quality.

"Thanks to the integration and automation we have improved our straight-through processing. The better the data quality, the better our cash and liquidity management. We simply did not have the visibility that we have now. We have significantly saved time and costs as cash application and payment processes run much faster than before. We estimate that we have saved at least 50% of processing time." says Andreas Schulze, Cash Manager Europe at Nordson Holding.

Achieving a secure and efficient credit management

The internationally active Koch Media Group relies on credit insurances to secure its merchandise business. To guarantee the insurance coverage they must fulfill numerous obligations and always maintain the current insurance limits, which requires considerable administrative effort. The company needed to find a way to effectively administer the obligations and the insurance limits granted. Furthermore, the company needed to organize all follow-up processes within their SAP system. Koch Media achieved this by using a credit management solution that integrates credit insurance information, digitizes the alignment processes with the insurer and automates credit monitoring and data sourcing.

"We were able to achieve enormous rationalization as well as a central and quick overview of our day-to-day business. We particularly appreciate the many evaluation options. All risk-relevant information on several company codes are available to us at the touch of a button for the entire group worldwide in real time. The direct connection from SAP to the credit insurer is also very user-friendly and ensures that the insurance limits are always up to date and maintained and serviced seamlessly within SAP." Erich Prantner, Head of Accounts Receivable and Credit Controlling at Koch Media.

Achieving new levels of precision in collections and dispute resolution

The global healthcare company Merck achieved standardization, security and efficiency within their receivables management by introducing a comprehensive solution for managing collections, complaints and dispute cases. With the solution the company is able to fully document and achieve a quick overview of a customer's payment history, including open items as well as all dispute cases and correspondences. Predefined workflows powered by RPA trigger automatic events and ensure cases are assigned to the correct employees for processing. Customer-oriented agreements, such as installment payments or deferments, can be made quickly and flexibly over the phone and the correspondence can be documented in the system instantly. Merck was able to reduce processing time significantly and improve transparency. This way they ensure that central customer satisfaction and risk management KPIs are met.

"We have achieved a reliable and efficient credit and collections management system which helps us to increase our performance, and reduce customer risks as well as DSO significantly." Says Salvatore LoBosco, AF Finance & Controlling, Application Consultant SAP Finance, Merck KGaA

All three organizations were able to achieve these results with intelligent automation solutions provided by B2B fintech company Serrala

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Re-thinking the core and going hybrid

Despite the enormous potential that cloud and cognitive technologies offer for O2C processes, the question remains: how do you get there? Any pursuit of digital transformation must start from the technological status quo. Organizations must consider how to harness these innovative technologies while maintaining operational integrity. This process begins with determining whether the existing ERP systems can serve as a basis for innovation. In most cases, companies can use a hybrid cloud approach to extend and enhance existing ERP systems with newer cloud and cognitive technologies. This approach enables companies to benefit from the new technology while extracting as much value as possible from their legacy systems, building on previous investments.

Depending on the amount of digital transformation required, companies can determine how to improve or replace their existing systems by assessing the various hybrid cloud and cognitive capabilities that are available. Inefficient or even obsolete processes (e.g. paper-based work) should be replaced with newer cloud-based capabilities. For other parts of the process, organizations can look for ways to leverage new technology to move forward into a digital future. There are several ways to do this:

- **Upgrade legacy systems:** Staying with an on-premise ERP system and updating and/or upgrading it might be less costly, but it is important to consider the long-term implications carefully. Staying on legacy systems could prove detrimental to your company because it can expose your company to additional risk and prevent you from being competitive in the future.

- **Move to the cloud:** Re-platforming the entire on-premise ERP system and replacing it altogether with cloud-based technology is an option. Cloud will most certainly dominate the future. However, an abrupt shift could unnecessarily disrupt business operations and overstrain employees. It might be better to consider a phased approach to implement cloud solutions for the best results.

- **Building a hybrid cloud environment:** A hybrid cloud environment that incorporates both on-premise and cloud capabilities is a pragmatic approach. A hybrid solution enables organizations to combine the best elements of their legacy ERP systems with advanced cloud and cognitive applications so they can improve processing without disrupting operations.

- **Managed automation:** Moving certain O2C functions like capture or collections to external service providers can be an excellent business and IT strategy. This approach is ideal to quickly unburden the back-office of low value, repetitive tasks and provides the company with the ability to scale to handle increasing transaction volumes.

06 Conclusion: An industry at the brink of a technological revolution

The path toward modernization depends on the individual organization's corporate strategy and objectives, existing legacy infrastructure and available resources. Digital transformation merely for the sake of transformation is not the goal. New technologies should only be introduced if they will support the company's need to respond to changing market conditions, evolving customer needs and line of business requirements. When reinventing core systems, companies should start by considering how cognitive technology can help them meet their strategic business goals. They should consider how the solution's reliability, scalability, compliance and security will affect the company's overall approach to digitization. By bringing these different aspects together, companies can confidently define how the digital transformation of order to cash and finance processes should be orchestrated to meet the company's needs. After all, not every approach makes sense for every business. In the end, organizations must find their own digital transformation path. But one thing is for certain: only the companies that think strategically about the digitization of finance processes and take a proactive approach to process transformation will have the necessary head start to stay competitive in the future.

Serrala Brings
Clarity to Complexity

Serrala is a global B2B fintech software company. We optimize the Universe of Payments for organizations that seek efficient cash visibility and secure financial processes. As an SAP Partner, Serrala supports over 2,500 companies worldwide with advanced technology, intelligent automation and personalized consulting. Our comprehensive end-to-end portfolio automates inbound and outbound payment processes as well as the management of related data and documents.

With offices in Europe, North America, Asia and the Middle East and over 600 employees, we are proud to be a trusted solution provider to customers of all sizes and in all industries.

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