

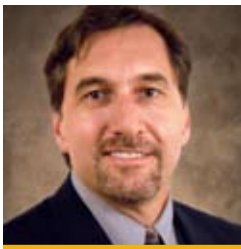


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Finance Departments Are Rethinking Costly, Labor-Intensive Processes

Best Practices for Automating Your Financial Supply Chain



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It's time to start thinking of the financial supply chain much like you would any logistical supply chain — but in this case, you're looking at cash conversion and payment cycles rather than inventory turns and supplier performance.

In nearly every conversation I've had with finance professionals recently, I'm struck by a recurring theme: They want to play a more strategic role in the overall organization and spend less time mired in time-consuming, labor-intensive business processes that prevent them from providing greater value to the business. What's more, CFOs want to optimize how their departments work by reducing operating costs and accelerating cash flows.

While most companies have deployed ERP systems to automate and streamline core accounting and reporting processes, other critical finance processes are still very labor-intensive — and very costly.

Consider an organization's financial supply chain, which encompasses the flow of cash and payment information between a company, its trading partners, and its banks. For many, the financial supply chain is characterized by paper-based processes and fragmented information flows that inhibit payment processing and tie up large amounts of working capital as payments move through various systems. The result? Increased risks, slower cash flows, and higher operating costs.

As is the case with its logistical counterpart, automating the financial supply chain and its largely manual business processes can significantly reduce the amount of tied-up capital, accelerate cash flows, and decrease operating costs. Treasury departments can also benefit from better visibility into the sources and uses of cash and their timing, and from the ability to more accurately forecast cash requirements and maximize returns on “excess” cash.

So how can companies make this transition? The key is to automate these financial business processes, improve collaboration between employees, and more quickly resolve the typical exceptions that drive up costs and increase days sales outstanding (DSO). To illustrate the point, let's break down the financial

supply chain into its two most distinct pieces — cash coming in as accounts receivable (AR) and cash going out as accounts payable (AP). I'll walk you through some examples of how customers are using SAP Financial Supply Chain Management (SAP FSCM) applications (see sidebar on page 14) to achieve tremendous savings in costs, labor, and time — and to put their cash to better use.

Overcoming the Hurdles of Accounts Receivable Management

The objective of receivables management is to ensure that customer payments are collected and processed quickly to provide a speedy and reliable flow of cash into the business. The most critical indicator of how effectively a company is managing its receivables is DSO, which measures the average number of days that a company takes to collect payments after they make a sale — and of course, is a measure that you want to keep as low as possible.

As with any business process, accounts receivable is prone to exceptions. Customer billing disputes can delay the settlement of accounts and cause DSO to increase. Payment delays, whatever their cause, affect cash flow and may force a company to borrow money from banks to meet their current obligations. This can significantly drive up operating costs due to both the amount of manual effort required to resolve disputes and the costs of bank borrowing.

Several customers I've worked with have developed very effective solutions to streamline their receivables process, decrease DSO, and reduce costs associated with managing process exceptions, such as billing disputes or collections.

Best Practice: Start with Rigorous Credit Decisions

As the old saying goes, “an ounce of prevention is worth a pound of cure.” Taking steps *before* doing

How efficiently can your company move funds through the process of selling and getting paid for goods, as well as making payments to its own suppliers?

business with a particular customer, such as quickly and accurately assessing their credit situation, can save you time and hassle and lower the risk of delayed payments or reduced profitability.

In my former life as a corporate banker, arranging a loan for a client without first performing a thorough credit evaluation would be irresponsible – let alone career limiting! But in discussing working capital financing requirements with my corporate clients, my questions about their own credit policies were often met with vague statements or blank stares. Bad credit decisions can quickly become collections cases – or worse, bad debt write-offs. The challenge is to strike a balance between thoroughly assessing risk and, at the same time, not holding up a critical sales order, all without damaging customer relationships.

Believe it or not, most companies today do their customer credit evaluations manually. They gather complicated data from external and internal sources, then analyze it to assess the buyer's financial strength and ability to pay. This determines not only whether to make a credit sale to a buyer, but also how high a buyer's outstanding balance can go before further sales are restricted.

The sheer volume and complexity of data, however, frequently paints a very confusing picture and makes the credit decision difficult. Another key challenge, particularly for multinational firms, is obtaining a clear

view of the seller's overall exposure to a company, particularly when sales are made through different channels and across geographies.

Critical to making good credit decisions is a company's ability to get a holistic view of a particular customer. Many leading companies today turn to SAP Credit Management to automate the steps for establishing a buyer's ability to pay, as well as to monitor the buyer's ongoing risk profile and credit limit through the course of their business relationship. The application enables companies to combine information about a particular buyer's payment behavior – including the buyer's financial statements and external credit reports – and evaluate it quickly and accurately.

SAP Credit Management uses a sophisticated rules engine that quickly evaluates all of the complex data described above, calculates that company's credit risk profile, and helps the selling company set policies on terms and credit limits.

Consider also that a company's credit profile changes over time. To properly manage their risk, companies need to continually update their buyers' credit profiles and monitor the amount of trade credit they have outstanding to any particular company. SAP Credit Management automatically updates company credit profiles so that risk assessments are up to date, minimizing the risk of late payments and bad debt write-offs.

A New Generation of Financials Software: Giving a Mature Market an Automated Facelift

Most people think of ERP financials software as core accounting systems, such as general ledger, accounts payable and receivable, and fixed asset systems. Recently a new category of applications has emerged that goes beyond core financial applications and that can help finance professionals make their departments more efficient. This new category of financial applications is completely integrated with the core financials systems you already use to ensure that data moves freely between them and that transactions are properly recorded for reporting and regulatory compliance.

SAP Financial Supply Chain Management (SAP FSCM) applications (see **Figure 1** on page 16), part of the SAP ERP Financials solution, help automate critical financial business processes and enable greater collaboration between internal departments and a company's trading partners and banks. SAP FSCM helps streamline order-to-cash and invoice-to-pay processes, resulting in faster cash collections, lower operating costs, and enhanced cash flow predictability. Combined with real-time connectivity to banks, the solution helps companies reduce operating and IT integration costs and exert greater control over their cash.

Best Practice: Free Up Capital by Resolving Billing Disputes Efficiently

Good credit decisions are vital to the efficiency of the financial supply chain. But no matter how carefully you manage receivables, even your best customers can experience invoicing problems and delay payments. Regardless of why billing disputes arise, they increase DSO and are costly to resolve because of the high amount of manual intervention they require.

Finance specialists who manage dispute cases, for example, must gather the information necessary to resolve the situation, often through a series of one-off phone calls or emails to people in other departments who have critical information about the transaction in question. Working effectively across departments such as operations, sales, customer service, and finance can be a huge challenge. Further, tracking status and collaborating across departments is difficult because those involved in resolving the dispute often cannot view or locate consistent information about it. Each interaction lengthens the time the

Manual payment processes make it very difficult to monitor and enforce compliance without significantly increasing costs.

dispute remains unresolved, ties up resources, and can have a negative effect on customer satisfaction.

Consider Dow Corning, a global leader in manufacturing silicon-based products with 2006 revenues of US\$4.39 billion and over 20,000 customers worldwide. The company experienced a chronic number of disputes that took a long time to resolve, tying up cash and delaying the collection of the company's receivables. Dow Corning's dispute management process was largely manual, driven by reports

downloaded from the company's AR systems and delivered to finance specialists for processing. Email was the primary method of communication between all the departments involved, making it difficult both to track each case's status and to facilitate escalations or handoffs across departments.

"We had very little control over the process," says Ritch Cushway, Global Customer Financial Services Manager at Dow Corning. "It was hard to determine how many disputes were being handled, what their status was, and how long it took us to resolve them."

As part of a larger quality control effort, Dow Corning examined its internal dispute management processes and determined that it needed to automate many of the process steps and facilitate better collaboration across departments. It also needed to centralize information, workflow, and reporting to help speed dispute resolution.

Dow Corning selected SAP Dispute Management to help streamline the dispute-handling process and speed resolutions. SAP Dispute Management eliminates much of the manual information-gathering effort by organizing each dispute around a *dispute case* – an electronic folder that centrally captures all the information relevant to the case, allowing collection specialists and their counterparts in customer service and sales to see where each case is in the resolution process (see **Figure 2** on page 18).

Depending on the dispute reason – price discrepancies, damaged or missing goods, etc. – several people may need to collaborate to resolve the issue. With SAP Dispute Management, everyone sees the same data. "Our credit, customer service, and sales teams all have visibility into dispute cases, which has been very effective for focusing the proper attention on resolving disputes as quickly as possible," Cushway says. The application also records all communications and manages workflow and escalations.

One of the main reasons why Dow Corning chose SAP Dispute Management is the solution's integration with the company's existing SAP financials systems. This way, dispute cases can be created automatically from the AR system, and payments posted in the AR system are immediately passed to SAP Dispute Management to show the most up-to-date customer account balance. Rules-based workflows route disputes to the appropriate individual for research, examination, and resolution based on transaction details or customer type – helping eliminate all of

SAP FSCM application	Used to...	Business examples
SAP Biller Direct	Enable electronic invoicing and payment processing (EIPP)	<ul style="list-style-type: none"> A customer can view the status of its invoices and payments online A customer can download invoices to its internal systems and log billing disputes
SAP Collections Management	Proactively collect outstanding receivables	<ul style="list-style-type: none"> A collections analyst can identify accounts that require the most attention based on multiple criteria A collections specialist can view complete account histories including promises to pay and other actions taken
SAP Credit Management	Manage customer credit lines	<ul style="list-style-type: none"> Credit managers can quickly assess risk and set credit limits without holding up sales Decision makers can obtain a global view of their risk exposure by customer, segment, or region and take actions to reduce that risk
SAP Dispute Management	Process customer invoice complaints	<ul style="list-style-type: none"> Finance, operations, customer service, and sales teams can collaborate to resolve a dispute case faster and more efficiently A customer service representative can access a customer's dispute case and see up-to-date status and actions taken in response to the customer's inquiry
SAP Bank Communication Management	Manage and control electronic payments and bank interactions	<ul style="list-style-type: none"> A component of SAP Treasury Management, this application automates paper-based payment processes and provides greater control over electronic payments

FIGURE 1 ▲ Practical examples of how finance departments can use SAP FSCM applications to move beyond tactical, day-to-day finance operations

“We process monthly payment runs of over 1,400 wires and ACH payments and 4,000 check payments, and reconcile our cash positions daily — all with only two full-time employees in our treasury department.”

— Terry Olson, Senior Manager of Accounting — Operations, Energy Transfer Partners

the time-consuming, back-and-forth communications and information gathering.

SAP Dispute Management also allows users to create rules for alerts and escalations and determine who has authority to resolve a dispute. The results for Dow Corning include improved productivity, accelerated cash collection, optimized working capital, and better predictability of cash flow. “It’s working quite well,” Cushway says. “In June 2007, we had the lowest number of outstanding payment disputes in AR.”

Addressing Accounts Payable Management Obstacles

As they do with AR processes, many companies struggle with disconnected, manual, and paper-based payment and cash management processes that also consume a great deal of time and resources. Exchanging information with trading partners and banks is a critical component of the financial supply chain that could benefit from automation to increase efficiency, reduce operating costs, and improve how companies manage their cash.

Best Practice: Use Electronic Payments to Streamline AP and Cash Management

Leading companies are leveraging electronic communication with their banks to improve the flow of payment information and streamline processes. Using electronic integrations, companies can exchange information with their banks online and gain instant visibility into cash balances. This capability extends their ERP investments by allowing them to transmit payments electronically rather than by paper check, and to import electronic bank statements directly into their cash ledgers.

The results are lower operating costs through greater automation and the ability to manage cash more precisely by receiving near-real-time updates on incoming and outgoing payments from their banks. What often takes companies weeks to calculate — reconciling multiple bank statements manually — can now be done almost instantaneously through the exchange of electronic information.

One company that has reaped the benefits of electronic payments is Energy Transfer Partners (ETP), a US\$6 billion natural gas trading company with operations in San Antonio, Texas. The company has completely automated its payment and bank reconciliation processes through the use of electronic bank integrations. Like most companies, ETP struggles with a high volume of payments — monthly payment runs require them to send out more than 500 wire payments. Previously they would process these payments manually, involving lots of paperwork and redundant data entry.

“We had to enter data in two places,” explains Terry Olson, Senior Manager of Accounting — Operations at Energy Transfer. “First we had to enter data into a proprietary banking system and then re-key it into our own general ledger. This was time consuming, and it led to a lot of errors.”

With the large volume of outgoing and incoming payments, the company’s cash position was constantly changing. So knowing its precise cash position at any given time was challenging, requiring ETP to manually reconcile data from multiple banks and its own SAP accounting system.

With its SAP financial and treasury systems as the foundation, ETP has completely automated its outgoing payments and bank reconciliations. ETP worked with their banks to create electronic integrations that utilize SAP’s output file, called an IDoc, to deliver payment information. Payment runs generated in the SAP system are transmitted electronically to banks for settlement. “It’s a completely push-button environment now,” says Olson.

Energy Transfer also has achieved near-real-time cash management by downloading bank balances, including detailed payment transaction data, electronically into its SAP system and updating its cash ledgers daily. “The cost savings have been phenomenal,” says Olson. “We’ve completely automated the environment. We process monthly payment runs of over 1,400 wires and ACH payments and 4,000 check payments, and reconcile our cash positions daily — all

FIGURE 2 ▼ Example dispute case displaying relevant information including status, customer contact information, and all actions taken to date

Case Display: Short payment due to trade promotion (603) (Receivables)				
Header Data				
Heading	Short payment due to trade		Case ID	603
Customer	8001	Smith & Co. Corp. / D Company Code	1000	IDES A0
Reason	Trade Promotion	External refer.	0090035186	
Root Cause Code		Priority	Medium	
Status	In Process	Escalation Reason		
		Planned Close Date		
Currency	EUR	Euro (EMU currency)		
Disputed Amount	2,653.54	Orig. Disp. Amt	2,653.54	
Paid	0,00	Credited	0,00	
Cleared Manually	0,00	Autom. Written Off	0,00	
Processor	FIBHERSAM	Bam Fisher	Coordinator	MAENNER Silke Maenner
Process. Deadline	23.09.2004		Person Responsible	
Created On	20.09.2004 16:27:32		Created By	MAENNER Silke Maenner
Changed On	20.09.2004 18:30:02		Changed By	MAENNER Silke Maenner
Closed At			Closed by	
Contact Person	Ms. Helen Back		Telephone No.	06227 7-4444
e-mail	Helen.Back@smith.com		Fax Number	

with only two full-time employees in our treasury department.”

Best Practice: Get in Sync with Your Banks

Recent additions to the SAP ERP Financials application have enabled even greater financial supply chain

process automation by making it easier for companies to connect their financial management systems to their banks via electronic banking networks. SAP has worked extensively with the Society for Worldwide Interbank Financial Telecommunication (SWIFT), the organization that manages interbank communications networks, to enable corporations to use this secure and robust network to transact with their banks.

SAP ERP enhancement package 2, which shipped in July 2007, includes a new application called SAP Bank Communication Management. This application is a comprehensive solution for managing payments and transmitting them electronically to banks for processing. Through its companion application, the SAP Integration Package for SWIFT, SAP Bank Communication Management can completely automate a company's periodic payment runs, initiate necessary approval workflows, and then transmit the payment file to the company's bank via the SWIFT network.

Not only does SAP Bank Communication Management eliminate most of the manual effort associated with processing paper checks, the SAP Integration Package for SWIFT eliminates the need to build and maintain costly custom bank integrations.

How to Take the First Steps Toward Automating Your Financial Supply Chain

I recommend that finance teams wanting to play a more strategic role in their organization heed the following advice:

Evaluate your current financial processes. Software doesn't fix bad business processes – and, in fact, automating bad processes can only make the situation worse. Before implementing any FSCM solution, I'd recommend using SAP's analytics to understand, for example, the root causes of customer disputes. That's what Dow Corning did. Once they identified recurring issues that were causing disputed orders, they redesigned several processes and developed best practices to avoid the problems. Maybe your order system is difficult for customers to use, or you're faced with a lack of control over promised sales discounts that don't find their way to the billing department. Only when you address these recurring issues can you expect an FSCM solution to deliver the kinds of results you're looking for.

Take control of FSCM. Many corporations see financial supply chain management as a consequence of selling goods; they don't look at how much control they have over the process. If they see their DSOs rising, they think they can do nothing more than beat up on their collections team. Wrong concept. You can have complete control over the process if you apply the right kind of discipline – whether that's making the credit decision up front, managing billing disputes in a very disciplined manner, or using electronic communications to streamline invoicing and payments.

Become more familiar with SAP Financial Supply Chain Management applications. The SAP FSCM suite has a lot to offer, and I strongly recommend that you evaluate these solutions and consider how they can help your finance team become more effective. This isn't an all-or-nothing operation either; companies can pick and choose the solutions that best fit their financial automation needs. I encourage you to visit www.sap.com/solutions/business-suite/erp/financials → *Features & Functions* → *Financial supply chain management* for more information.

Summary

ERP financial applications are adapting to the needs of the modern enterprise, and companies have adopted them widely to streamline their core accounting processes. But there is more work to be done. Look closely at almost any finance organization, and you'll find inefficiencies in its financial supply chain that are driving up operating costs, slowing down cash collections, and increasing risk.

The SAP Financial Supply Chain Management set of applications is a solution designed to streamline financial supply chain processes, provide greater control over both the sources and uses of cash, and provide near-real-time visibility into a company's cash position. These applications are completely integrated with your existing SAP ERP Financials solution – so they help you extend your investment by enabling more complete automation of both customer-facing and supplier-facing financial business processes.

At last, finance can help the bottom line by reducing its own operating costs and risks while dramatically improving the company's cash flow. ■

Additional Resources...

...from **SAP** insider



- The **Financials 2008** conference in Orlando, March 10-13, 2008, for best practices and instruction to manage your financial supply chain (www.sapfinancials2008.com)
- *SAP ERP Financials: Configuration and Design* by Naeem Arif (SAP PRESS, www.sap-press.com)
- “Adapt and Automate SAP Dispute Management” by Jürgen Weiss (*Financials Expert*, Volume 6, Number 8, www.financialsexpertonline.com)